

ANNUAL REPORT 06-07



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WE THINK OF YOU!





# PASSION IN MOTION

## CONTENTS

06	Corporate Profile
08	Highlights
12	Message to Shareholders
18	Board of Directors
20	Management Discussion & Analysis
48	Corporate Information
51	Financial Highlights and Key Ratios
52	Economic Value Added Statement
53	Directors' Report
57	Corporate Governance Report
78	FAQ's
82	Auditors' Report
86	Balance Sheet
87	Profit & Loss Account
88	Cash Flow Statement
119	US GAAP



THE WORLD IS MOVING.  
BUT SOMEONE IS  
QUIETLY STEERING THE  
WHEELS OF CHANGE.

## CORPORATE PROFILE





The joint venture between India's Hero Group and Honda Motor Company, Japan has not only created the world's single largest two wheeler company but also one of the most successful joint ventures worldwide.

During the 80s, Hero Honda became the first company in India to prove that it was possible to drive a vehicle without polluting the roads. The Company introduced new generation motorcycles that had set the industry benchmarks for fuel economy and low emission.

A legendary 'Fill it - Shut it - Forget it' campaign captured the imagination of commuters across India, and Hero Honda sold millions of bikes purely on the commitment of increased mileage. Hero Honda has added many more feathers in its cap since then. Today, Hero Honda bikes sell not only on the promise of better mileage, but also on the basis of attributes such as safety, comfort, ergonomics and durability.

Thanks to the trust reposed by consumers across all segments, entry, deluxe and premium, year after year, over 19 million Hero Honda two wheelers tread Indian roads today. These are almost as many as the number of people in Finland, Ireland and Sweden put together! And all this has been achieved in the space of just over two decades.

Hero Honda has consistently grown at double digits since inception; and today, every second motorcycle sold in the country is a Hero Honda. Every 30 seconds, someone in India buys Hero Honda's top selling motorcycle - Splendor. In the 2006 festive season, the Company sold over half a million two wheelers in a single month - a feat unparalleled in global automotive history.

Hero Honda bikes currently roll out from two globally benchmarked manufacturing facilities located at Dharuhera and Gurgaon in Haryana. These plants together are capable of

churning out 3.9 million bikes per year. A third state-of-the-art manufacturing facility at Haridwar in Uttarakhand will soon be commissioned to cope with sustained market demand.

Hero Honda's extensive sales and service network comprises of over 3000 customer touch points. These include a mix of dealerships, service and spare points, spare parts stockists and authorised representatives of dealers located across different geographies. Every year, new dealerships and service centres are rapidly added where growth potential is spotted.

Hero Honda values its relationship with customers. Its unique CRM initiative - Hero Honda Passport Program, one of the largest programs of this kind in the world, has over 3 million members. The program has helped Hero Honda understand its customers better and deliver value at different price points.

Having created an unassailable pole position for itself in the Indian two wheeler market, Hero Honda is now consolidating its position in the market place by innovating along the entire value chain.

As India enters into an exciting period of growth, Hero Honda is making sure it is in a position to keep pace. The Company is tapping several new opportunities.

The Company believes that changing demographic profile of India, increasing urbanization and the empowerment of rural India will add millions of new families to the economic mainstream. This would provide the growth ballast that would sustain Hero Honda in the years to come.

Indeed, as Brijmohan Lall Munjal, Chairman, Hero Honda Motors succinctly points out, "We pioneered India's motorcycle industry, and it's our responsibility now to take the industry to the next level. We'll do all it takes to reach there." Amen to that.

# H I G H L

World largest two - wheeler manufacturing company for the 6<sup>th</sup> consecutive year.  
A record volume of over 3 million two - wheelers in a year.  
More than a million bikes ahead of the nearest competitor.

Foundation Stone of Haridwar plant laid on October 19th, 2006 by Dr. Manmohan Singh, Hon'ble Prime Minister of India.



New motorcycle models launched at the dealer conference in Agra: CBZ X-treme, Glamour alloy wheels and Passion - special edition.



Hero Honda Dealers spent time on the high seas as part of an exclusive cruise.



Top Indian company in the automobile - two wheeler sector, by Dun & Bradstreet - American Express Corporate Awards 2006



New motorcycle models launched at the dealer conference on the cruise: CD Dawn, CD Deluxe, Achiever and Karizma.



Hero Honda Splendor - India's most preferred two wheeler brand by CNBC Awaaz Consumer Awards 2006



# I G H T S

Distribution network of over 3000 customer touch points including sales, service and spare parts outlets.

Over 3 million members with Hero Honda Passport Program.

The NDTV Profit Car India & Bike India Awards 2007: CBZ X-treme - "Bike of the Year" (up to 150 cc & Overall category). Glamour PGM FI - "Bike Technology of the Year".



Hero Honda - global sponsor of the ICC World Cup 2007.



Entered in the Forbes Top 200 list of world's most reputed companies. Top Indian Two Wheeler Company by Wall Street Journal Asia No. 1 in automobile industry by TNS CSR Award.



The Hero Honda Indian Television Academy Awards, 2006 - Hero Honda's association with this annual festival of joy for the entire TV-fraternity is now over six years.



'MTV Hero Honda Roadies 4', the fourth season of India's only adventure-reality show. The saga of endurance by men & machine this time started from Kovalam and ended at Gangtok covering a distance of 8500kms.



The Grand Finale of 30<sup>th</sup> Hero Honda Surtarang National Singing Talent Hunt, at Talkatora Indoor stadium, Delhi





IT'S A GREAT FEELING TO SEE  
THE WORLD, **GAINING**  
**MOMENTUM**. AND AN EVEN  
GREATER FEELING TO BE  
CONTRIBUTING TO ITS PACE.





## CHAIRMAN'S MESSAGE

Dear Shareholders,

Hero Honda became Rs. 10,000 crores company during the year in review. It is an accomplishment that few companies in India have arrived at, in such a short span. I would like to thank all members of the Hero Honda fraternity, especially you, our shareholders, for scaling this summit.

We live in a moment of history where change is so rapid that we begin to see the present only when it is already disappearing. Huge, accelerated developments are taking place within us, around us and beyond us.

India's rate of investment is at present the fastest in Asia after China's; growth in savings is on par with Asean nations and ours is now a trillion dollar economy.

Two thirds of India's urban households now own television sets; four out of five households own fans and three out of ten households own refrigerators. Close to half of rural households now own at least a cycle. For us in the two wheeler industry too, there is heartening news. In 1994, less than 12 per cent of urban households owned two wheelers; by 2005, 26 per cent households owned a two wheeler.

The automobile industry last year grew at 12 per cent, compared to 16 per cent—as a result, there's been some speculation that the base effect is finally beginning to catch up with the two wheeler industry. Some of you might also be concerned that operating margins have come under pressure of late because of more intense competition, upswings in commodity prices and rising interest rates.

I see these as nothing but temporary blips in a growing economy where demand is strong. Let me assure you that we and our joint venture partner are taking appropriate measures to ensure that our profitability gets back on track as quickly as possible.

We believe that there is still plenty of fuel in

the two wheeler tank. This is demonstrated by the fact that during the year in review, we increased the number of customer touch points in India from 2400 to over 3000 nos.

Last year, I talked about the trust and faith reposed in us by 15 million customers. Today, we are over 18 million customer family, and just as a growing family needs a bigger house to live in, a growing company needs more manufacturing facilities. I am pleased to inform you that we are now in the process of setting up our third, state-of-the-art plant at Haridwar in Uttarakhand and we hope to start commercial production before long.

### Why are we so secure about the future?

Foremost, two wheelers outsell cars in India by 4:1 because they are fuel efficient. With the median income of the average bike owning family at around \$ 3500 per year, fuel efficiency more often than not influences a purchase decision. This is especially so, given the sharp rise in petrol prices over the last two years. In the years to come, our comparatively low cost of ownership will be our biggest growth driver.

In my previous message, I referred to urbanisation as a growth driver. As more of India becomes urban, we will continue to grow. Your company's products are now sold in 76 per cent of India's talukas, and it has become easier to push these products primarily because of growing urbanisation.

Urbanisation has benefited us in another way. Nearly three fourth of India today lives in cities. The basic problem is not the number of vehicles in the country but their concentration in a few selected towns, particularly in metropolitan cities with a population of a million plus. In fact, 32 per cent of vehicles registered in India are plying in metropolitan cities alone. In Delhi, for example, there are more than 3.5 million registered vehicles (in addition to the floating population which comes from other states). Without a

commensurate increase in the road mass, this has led to massive congestion. This congested habitat is a natural growth environment for two wheelers since they are easy to maneuver and park.

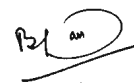
Of course, this is not to suggest that I am in favour of congestion! I am exceedingly excited with India's ongoing road development programs; it will make life easier for all of us and also bring millions of families on to the economic mainstream. However it will still take some years for India's road infrastructure to stabilise, and cope with the rise in vehicular traffic. Till then, bikes will continue to be the most preferred form of transport.

For two decades, we have been able to sustain double digit growth because of these growth drivers. These remain intact today, and are likely to remain intact for quite sometime to come.

The two wheeler story is only just beginning to unfold. India has very favourable demographics. With an average age of 25 years, India is a good 9 years younger than China, and more than 12 years and 19 years younger than the U.S. and Japan, respectively. Going forward, the proportion of India's population in the working age group is projected to increase steadily over the next several years. In other words, your company's future is secure and bright.

Once again, thank you very much for your incessant support and good wishes. Your good wishes are a source of strength for all of us at Hero Honda and motivate us to strive for an even better tomorrow.

Yours sincerely,



Brijmohan Lall  
Chairman





## MD'S MESSAGE

Dear Shareholders,

It is said that "A champion needs motivation above and beyond winning". Hero Honda faced perhaps one of its sternest tests in its quest for topline growth during the year, but this was perhaps the motivation required for your company.

The year in review will go down in Indian automobile history for another reason. During the 2006 festival season, we sold half a million two wheelers in a single month - a feat unparalleled in global automotive history. Today, thanks to the trust reposed in our products by our customers, there are more than 18 million two wheelers on the roads.

The two wheeler market continues to add one million units per year and last year was no different. However, given the intense level of competition, the emergence of short term factors like inflation and interest rates, and the impact of input prices, it has become more challenging to maintain growth.

Hero Honda closed another good year by achieving production & sale of 3.33 million two-wheelers during the year, recording a growth of 11.2 per cent (in two wheelers). The year in review can be divided clearly into two parts - the first part, modest sales growth and declining market share up to September. Thereafter, there was a period of strong recovery up to the end of the financial year and your company improved overall market share.

We were able to regain ground in a remarkably short period of time on the back of a two-pronged strategy: we refurbished our existing portfolio of bikes and put together a slew of exciting new offerings. In all we had 8 new product launches, making 2006-07 the most prolific year in our history.

Nevertheless, I would be the first to acknowledge that the going hasn't been as easy as it was in the past. The entry of global players and the resurgence of other Indian two wheeler firms have

created intense competition for market share. On the other hand, rising interest rates and higher inflation prompted a number of potential customers to postpone buying decisions, especially in the last few months of the financial year. As a result, during the last quarter of the year, industry sales growth slipped into the negative - for the first time. However, Hero Honda bucked this trend, even with our high base of 3 million sales from last year and our growth remained in positive territory throughout the year.

Without a doubt, the growth upside remains. Besides India's favourable demographics, what excites me is the mainstreaming of "Bharat." In the past, what we fleetingly referred to as small town India has morphed beyond imagination. For example, studies show that these mofussils account for 25 per cent of India's internet users; today, a town in Kerala has a mobile penetration rate that is higher than a metropolitan city; and a town in West Bengal's rural northern tip opened a water theme park recently.

As more of India's mofussils come into the economic mainstream, companies like ours have a huge opportunity to cash in. We need to translate this embedded potential into greater sales growth; at the same time we need to ensure that our operating margins don't haemorrhage at the altar of higher sales. Going forward, managing this tightrope walk will be our primary challenge.

In my previous year's message, I shared with you about input prices being a concern area, going forward. During the year in review, our operating margins were at an all time low. Nickel, steel and aluminium prices ruled firm for the entire course of the year.

These developments were competently handled by our concerned departments. However, our vendors are making critical investments in quality and capacity enhancement in collaboration with us. For example, our online vendor connectivity program has made rapid progress. Two years ago, we had only 46 vendors

connected online to our factories, and now we have 135. As a result, we are able to manage with lower inventories, and our efficient materials management system has helped us cope in an extremely difficult market.

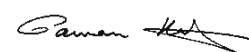
Moreover, to protect our market shares in key segments, we embarked on our largest-ever product upgrade program during the year. The accompanying marketing spends and royalty payments to our joint venture partner have also affected our margins. On the flip side though, our refurbished portfolio of brands helped us bounce back in the market with a short span of six months, while the rest of the two wheeler industry went into a tailspin.

In my mind I have no doubt that our long-term sustainability will depend on how much, and how fast, we are able to grow the two-wheeler market in India. This will depend on our ability to increase reach in new geographies and growth markets. I am happy to inform you that we now have over 3000 customer touch points across the country.

I would like to end with an African proverb that says that tomorrow belongs to those who prepare for it today. Hero Honda has always been an innovative company and has been 'leading the way' throughout its illustrious corporate history. We have a large number of firsts to our credit and our past performance is a rich source of inspiration for us to do even better in the future.

In the process, we would like to continue to give joy to all the stakeholders who are associated with the organisation in one way or the other. In this endeavour, we look forward to your continued support for all times to come.

Yours Sincerely,



Pawan Munjal  
Managing Director & CEO



## JMD'S MESSAGE

Dear Shareholders,

Coming together is a beginning; keeping together is progress; working together is success. For more than two decades, the Hero Group of India and Honda Motor Company of Japan have proved that this axiom actually works.

It is true that we are diverse entities. But diversity is nothing but the art of thinking independently together. What we have in common today far outweighs what we don't. Besides, close co-operation between Hero and Honda has also led to greater accountability and responsibility since there are many more checks and balances in our management system. This is our strength and our biggest source of competitive advantage in the Indian market.

We have shown that if we run a company imaginatively and collaboratively, we are able to get optimal results. For instance, close and continuous co-operation between our management, research and technical teams led to the introduction of an unprecedented eight new products in a single year in the Indian market. This created more bandwidth for growth, even under difficult market conditions.

Today, we at Honda derive great pleasure that we are able to create 5 million Indian customers every year. What makes us even more proud is that around 2/3 of these customers have been created by Hero Honda. In the months and years to come, I can assure you that Hero Honda will continue to create customer delight.

We will continue to launch more innovative and joyful products for different profiles of Indian customers across various geographies and age groups. At the same time, we will continue to focus heavily on riding safety and spreading safety awareness, since this lies at the core of Honda's philosophy.

As market leaders with a conscience, I also assure you that we take our corporate and social responsibilities very seriously. We realise the importance of strengthening our corporate governance and CSR policies and making them more robust as we go along.

Yours sincerely,



Toshiaki Nagakawa  
Joint Managing Director



## BOARD OF DIRECTORS



**Brijmohan Lall Munjal**  
Chairman



**Pawan Munjal**  
Managing Director & CEO



**Toshiaki Nakagawa**  
Joint Managing Director



**Yutaka Kudo**  
Whole-time Director (w.e.f. April 01, 2007)



**Om Prakash Munjal**  
Non-Executive Director



**Sunil Kant Munjal**  
Non-Executive Director (w.e.f. October 25, 2006)



**Masahiro Takedagawa**  
Non-Executive Director (w.e.f. May 30, 2006)



**Takashi Nagai**  
Non-Executive Director (w.e.f. May 11, 2007)

### Outgoing Directors

**Satoshi Toshida**  
Non-Executive Director (upto May 30, 2006)

**Motohide Sudo**  
Non-Executive Director (upto May 30, 2006)

**Satyanand Munjal**  
Non-Executive Director (upto October 25, 2006)

**Takao Eguchi**  
Whole-time Director (upto March 31, 2007)

**Tatsuhiro Oyama**  
Non-Executive Director (upto May 11, 2007)



**Pradeep Dinodia**  
Non-Executive and Independent Director



**Gen. (Retd.) Ved Prakash Malik**  
Non-Executive and Independent Director



**Narinder Nath Vohra**  
Non-Executive and Independent Director



**Analjit Singh**  
Non-Executive and Independent Director



**Dr. Vijay Laxman Kelkar**  
Non-Executive and Independent Director



**Ms. Shobhana Bhartia**  
Non-Executive and Independent Director



**Dr. Pritam Singh**  
Non-Executive and Independent Director



**Sunil Bharti Mittal**  
Non-Executive and Independent Director

## Committee of Directors

### AUDIT COMMITTEE

**Pradeep Dinodia**  
Chairman

**Gen. (Retd.) Ved Prakash Malik**  
Member

**Dr. Pritam Singh**  
Member

**Narinder Nath Vohra**  
Member

### SHAREHOLDERS' GRIEVANCE COMMITTEE

**Narinder Nath Vohra**  
Chairman

**Pradeep Dinodia**  
Member

**Dr. Pritam Singh**  
Member

### REMUNERATION COMMITTEE

**Gen. (Retd.) Ved Prakash Malik**  
Chairman

**Narinder Nath Vohra**  
Member

**Pradeep Dinodia**  
Member

### COMPLIANCE OFFICER

**Ilam C. Kamboj**  
G.M. Legal & Company Secretary

### SENIOR MANAGEMENT TEAM

**Ravi Sud**  
Sr. Vice President & CFO

**N.N.Akhouri**  
Sr. Vice President HRM

**Rajeev Kapoor**  
Vice President & Plant Head (DHR)

**Anil Dua**  
Vice President Sales & Marketing

**Dr. Anadi Pande**  
Vice President Corporate Planning & Strategy

For more information please visit [www.herohonda.com](http://www.herohonda.com)

# MANAGEMENT DISCUSSION & ANALYSIS

**Economy and Industry**

Economic Environment

Industry and Segment Dynamics

**Results and Financials**

Results and Financial Analysis

Risks and Outlook

**The Value Chain**

Hero Honda In The Market

Serenading The Customer

Operations

Human Resource Management

Research and Development

**Environment and Community**

Environment Management

Corporate Social Responsibility

**Cautionary statement**

Statements in this management discussion and analysis describing the Company's objectives, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable laws and regulations. Actual results might differ substantially or materially from those expressed or implied. Important developments that could affect the company's operations include significant changes in political and economic environment in India or key markets abroad, tax laws, litigation, labour relations and interest costs.



## ECONOMIC ENVIRONMENT





India appears to have acquired a ravenous appetite for growth that shows no signs of abating. A GDP growth of 9.4 per cent in 2006-07 makes it the second successive year of 9 per cent plus growth. The country's GDP crossed the trillion-dollar mark for the first time ever in April 2007, and India now finds itself in an elite club of trillion dollar nations.

There is little doubt that the changing savings and investment profile is powering India's growth engine. The savings rate shot up to 32.4 per cent of GDP during the year in review. This is at par with some of the top ASEAN nations.

Two forces have been influencing the portfolio behaviour of Indian households. First, there's the ongoing construction boom being driven by residential buildings financed through housing loans. While the construction boom has helped inflate household savings in physical form, maturing financial markets have resulted in higher financial savings.

The investment scenario also looks optimistic. The difference between gross fixed capital formation and changes in stocks has narrowed. This indicates a definite appetite for fresh investments and for creating additional capacity through fixed capital formation. As a result, the investment level touched 33.8 per cent of GDP during the year.

Manufacturing posted a growth of over 12 per cent. Capacity expansion was fueled by a boom in capital goods, electronics and automobile sectors, emphasising the consumer boom.

Of course, with more than 55 per cent of India's GDP, the services sector continues to be at the forefront of India's performance. Service sector in double digits during the year. Besides the IT and ITES sector, growth was powered by the rapid expansion in the trade, financing, real estate, hotels, logistics and telecom industries.

Though agricultural growth has been less than spectacular, rainfall has been near normal for the last four years, allowing non-agricultural sectors to flourish unimpeded on the base of sufficient demand for rural India.

There is little doubt that India's growth is demand-driven. The impetus is being provided by an expanding consumer base, the increased integration with the global economy, the emergence of competitive business entities and the surge in domestic and foreign investments.

With 30-40 million persons joining the middle class each year, demographics has emerged as a source of competitive advantage. Approximately 50 per cent of India is under 25, and it will remain this way for some time. What this means is that a higher percentage of people will be in the working age till the mid-twenty-first century - which is when India is projected to take over the US as the second largest economy of the world.

Urbanisation is also becoming increasingly relevant in the growth story. Cities like Pune, Chandigarh, Kolkata, Indore, Ahmedabad, Cochin, Chennai, Hyderabad, Secunderabad, Jaipur, Rajkot, and Nagpur are gaining attractiveness primarily due to their lower operating costs relative to a Tier I city.

Based on current trends, the western and southern parts of India, as well as large pockets in the north, are likely to be largely middle class (by local definition) and urban by 2020. The pockets of modernity - mainly wealthy cities, their hinterlands, and some prosperous rural areas - will continue to grow but will be complemented by new growth centers, largely transforming about half of India's states into middle income economies.

With Tier II cities as alternative magnets of growth, no obvious concerns on demand slowdown are apparent over the medium

to long term, especially for Hero Honda.

To be sure, there were dampeners during the year as well. Inflation rose on demand and supply side pressures. To prevent an overheating in the economy and to reduce the growth in credit, the Reserve Bank periodically forced banks to raise interest rates on several occasions during 2006-07.

However, it is unlikely that inflation and high interest rates will drag down the economy, and has RBI forecasted 8.5-9 per cent GDP growth for 2007-08.

Going forward, the long term challenges remain significant. From a corporate perspective, there are other serious concerns; indirect tax liability on industry is very high, impacting competitiveness; while labour laws are restricting employment growth in the organized sector.

At a broader level, huge resources are required for public investments in basic infrastructure, particularly power. Human capacity building, or education and skill development, is a major hurdle and workforce dependency on agriculture and agricultural stagnation are major concerns.

There are limits to the ability of the agriculture sector in providing gainful employment to the over 600 million people dependent on it. This means that industrial growth, particularly that of agro-processing, needs to be maintained at double-digit rates. Yet the sustainability of high industrial growth will depend on the availability of infrastructure, which appears to be a problem in the short term.

The Union Budget for 2007-08 has sought to address some of these shortcomings. Allocations under the Bharat Nirman project have been upped by 32 per cent; education by 34 per cent, health and family welfare by 22 per cent. The impact of these initiatives is expected to be seen by the end of this decade.

## INDUSTRY AND SEGMENT DYNAMICS



The base effect finally seems to be catching up with the two wheeler industry in India. After growing at 16 per cent in the previous year, the pace of growth slipped to 12 per cent in 2006-07. Total volumes were pegged at a little less than eight and a half million, an incremental addition of nearly 1 million.

On the bright side, however, the motorcycle industry continues to be a dominant driver of this growth, by notching volumes of 7.09 million. The segment accounted for 83.7 per cent of two wheeler sales - up from 81.9 per cent in the previous year.

To understand the pace of growth in this segment, consider these facts: first, in 1999-2000 motorcycles accounted for just 48% of two-wheelers sold, in India. Similarly, In 2005, the National Council of Applied Economic Research had projected that motorcycle sales would cross the 8 million mark by 2010. However, at the current pace of growth, this target is expected to be met during the current year itself.

Given the emerging demographic profile in a country, where young salary earners are increasingly making up the workforce, the growth of motorcycles has come at the cost of scooters whose sales dipped by 1 per cent at 9,82,384 units. Scooters now make up 11.6 per cent of the two wheeler segment. Surprisingly, the moped category bucked this declining trend and grew at 5 per cent during the year.

During the year, the three price points in the motorcycle segment continued to grow at different paces.

After maintaining at a scorching pace of 40 per cent in the previous year, sales of entry level bikes grew at just 5 per cent during the year in review, ending with volumes of a little over 2.7 million. The modest growth meant that the share of entry level bikes in the motorcycle segment slipped to 38.2 per cent, from 41 per cent.

During 2005-06, the entry bike category was the star growth performer. During the year under review, it was the turn of deluxe bikes, which is the cash cow of Hero Honda by a long distance. Sales of deluxe bikes grew by 20 per cent, and volumes were pegged at close to 3.6 million units, or 50.6 per cent of the motorcycle market. During the previous year, the share of deluxe bikes in the overall motorcycle mix had gone down to 48.7 per cent.

The recovery in market share and the 20 per cent growth in a high volume market are clear indications of robust potential and scope for category growth.

In 2001-02, there were 61 million Indians belonging to families that earned more than Rs 200,000 a year; by last year (2005-06), that number had crossed 100 million. In 2009-10, this number is projected to increase to 173 million. It is safe to assume that the bulk of the buyers from these segments will opt for either entry or deluxe segment motorcycle offerings.

The premium segment increased its share in the overall motorcycle mix from 10.3 per cent to 11.3 per cent, and improved its pace of growth at 25 per cent from 18 per cent last year. Given the growth in this segment, there is no doubt that in the long term, this category will play a determining role in the overall growth of the motorcycle segment.

However, in the short to medium term, most of the action is expected to take place in the deluxe and entry segments, given the current income profiles of Indian households. Another uncertain variable is the possible entry of low-cost, Rs 1 lakh cars by 2008, as is being envisaged. Pricing at these levels could pit the premium segment directly against four wheelers.



IT IS NOT ABOUT MAKING  
MONEY. IT IS ABOUT  
GENERATING WEALTH.

## RESULTS AND FINANCIAL ANALYSIS

- **Sales:**

Annual sales volumes grew at 11.2 per cent. Hero Honda clocked sales volume of 3,336,756 units in 2006-07 compared to 3,000,751 units in 2005-06, the highest ever. In value terms total sales (net of excise duty) increased by 13.6 per cent to Rs. 9900 crores from Rs.8714 crores in 2005-06.

- **Profitability:**

Stiff competition, a sharp increase in input costs because of hardening metal prices and higher royalty payout reduced operating margins. As a result, earnings before interest, depreciation and taxes (EBIDTA) margins decreased from 15.7 per cent in 2005-06 to 11.8 per cent in 2006-07. Operating profit (PBT before other income) declined by 15.9 per cent from Rs.1256 crores in 2005-06 to Rs.1056 crores in 2006-07.

- **Other Income:**

Other income increased by 21.5 per cent from Rs.156 crores in 2005-06 to Rs.190 crores in 2006-07.

- **Cash Flows:**

Despite the double digit growth in sales turnover, pressure on margins continued because of an increase in metal prices. This caused a decline in operating profit margins, and in turn

led to a decline in cash flows during the year. The net cash flow from operations were pegged at Rs. 625 crores compared to Rs. 936 crores in the previous year.

The Company also spent Rs. 273 crores in investing activities mainly on account of purchase of fixed assets worth Rs. 519 crores to further enhance production capacities. Financing activities accounted for an outflow of Rs. 474 crores mainly on account of liberal dividend outflows.

- **Capital Expenditure:**

During the year the Company incurred a significant capital expenditure of Rs. 519 crores. The funds were used to expand capacity at the existing facilities and to build a new plant at Haridwar in Uttarakhand. The aggregate capital outlay for the new production facility is estimated at Rs. 450 crores. Of this, Rs. 215 crores has been used in 2006-07.

- **Raw Material Costs:**

A substantial increase in the prices of major metals (steel, aluminium & nickel etc) compared to the previous year increased the share of material costs in the overall cost structure. Raw material costs as a percentage of total sales increased from 69.5 per cent in 2005-06 to 72.5 per cent in 2006-07.

**Table 2 : Key Indicators of Profitability**

	2005-06	2006-07
OPBDIT / Sales (%)	15.7	11.9
OPBT / Sales (%)	14.4	10.5
PBIT / Sales (%)	16.1	12.4
PBT / Sales (%)	16.2	12.6
PAT / Sales (%)	11.1	8.7
ROACE (%)	72.3	50.6
ROAE (%)	55.5	38.3

- **Asset Management:**

The fixed asset turnover (sales as a proportion to net fixed assets) of the company declined from 10.2 in 2005-06 to 8.4 in 2006-07. This is mostly on account of the higher capex investments.

- **Current Asset Turnover:**

This ratio, which shows sales as a proportion of average current assets, also decreased from 12.7 to 11.4, on account of higher receivables. However, the Company maintained its policy of paying its creditors on time.

### Debt Structure

Hero Honda has been a debt-free company for the last 6 years. The unsecured loan of Rs.165 crores from the

**Table 1 : Key Financials - Income, Profit (PAT), ROAE and ROACE**  
(Rupees in Crores)

	2002-03	2003-04	2004-05	2005-06	2006-07
Total Income	5195	5997	7559	8870	10090
PAT	581	728	810	971	858
PAT as % of Total Income	11	12	11	11	9
ROAE (%)	76	73	62	55	38
ROACE (%)	99	93	81	72	51



state government of Haryana on account of sales tax deferment, is interest free and has no holding costs. Net interest payment by the Company has been negative during the last few years.

### Dividend Policy

Over the years, the Company has consistently followed a policy of paying high dividends, keeping in mind the cash-generating capacities, the expected capital needs of the business and strategic considerations. For 2006-07, the board has recommended a dividend of 850 per cent, and has maintained a payout ratio of 46.3 per cent vis-à-vis 46.9 per cent in the previous year.

### Working Capital Management

Hero Honda has continuously sought to improve its working capital management by ensuring most efficient business cycles. During the year the Company maintained a negative working capital. However, due to the highly competitive

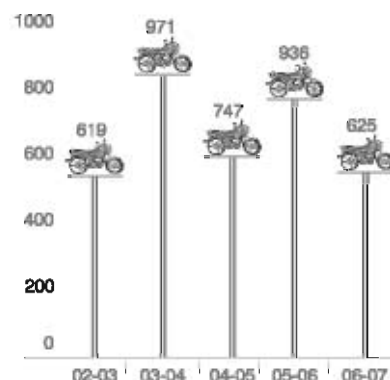
environment, the Company offered higher credit to its dealers, leading to increase in receivables.

As a part of its cost rationalisation drive, the Company aggressively availed cash discounts from vendors by making payments before due date. This not only helped us improve operating profit margins but also allowed the Company to deploy the surplus funds in the core business.

**Table 3 : Working Capital Management & Liquidity Ratios**

	2005-06	2006-07
Inventory Period	10.5	10.4
Operating Cycle	14.9	17.9
Cash Cycle+	(23.9)	(12.2)
Current Ratio*	0.74	0.84
Acid Test Ratio*	0.54	0.59

### Net Cash Flow From Operations (Rupees in Crores)



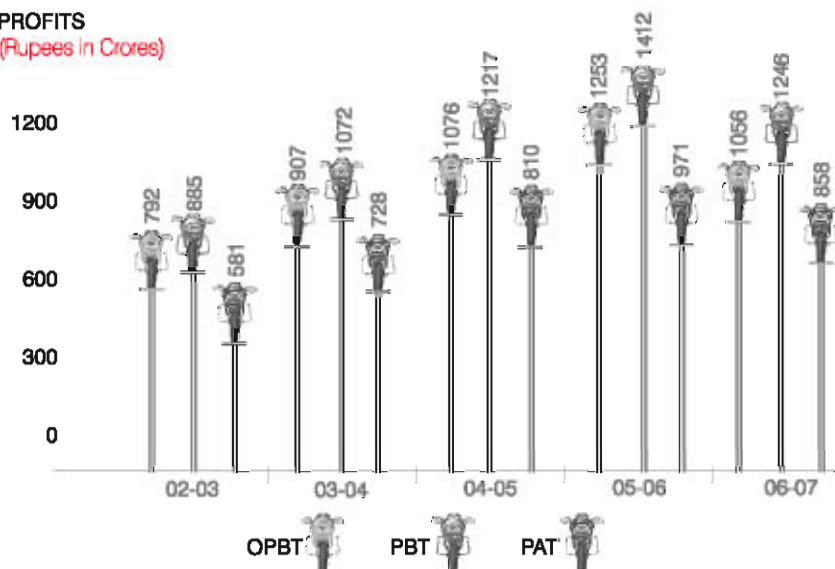
**Notes:** The average of inventory, receivables and payables have been taken for the above calculations of inventory period, operating and cash cycle

\* Current liabilities excluding proposed dividend and tax thereon.

+ On account of cash discounting of vendors payment described above, the cash cycle has increased from (-) 23.9 days to (-) 12.2 days

### PROFITS

(Rupees in Crores)



OPBT - PBT before other income    PBT - Profit before tax    PAT - Profit after tax

## RISKS AND OUTLOOK





## RISKS AND CONCERNS

- **Slowdown:** Sales in the entry segment slowed during the year, and the Company's share in this segment dropped from 32 per cent to 27 per cent.
- **Competition:** The fight for market share has become more intense. The push to gain market share at all costs, especially through discounts and interest-free schemes has started affecting bottomlines across the industry.
- **Input costs:** Prices of critical inputs such as steel, aluminium and nickel continue to remain high, and affected profitability during the year. Input prices continue to remain a cause for concern.
- **Interest rates:** Banks raised interest rates several times during the year, and acquisition costs of a two-wheeler went up as a result. Since more than 50 per cent of sales are financed through loans, higher interest rates are likely to slow down overall sales to some extent.

Interest rates and rising inflation was a cause for concern during the year. However, the Company has reason to believe that monetary and fiscal measures effected by RBI and the government, should have a cooling effect on interest rates and inflation, going forward.

Margins were under pressure throughout the year because of high input costs. Unless these costs stabilise at a lower level, profitability will remain under pressure.

## OUTLOOK

After a decade of scorching growth, it appears that the base effect might be settling in the two wheeler industry. While absolute growth – incremental sales of around 1 million – is still substantial, maintaining double digit growth in the coming year might be difficult for some players.

India's inherent growth story however remains. Hero Honda believes that two wheeler sales will increasingly be driven by growth in India's Tier II cities and towns in the coming years. Nevertheless, it might take a few years for these regions to generate volumes similar to those in metropolitan cities.





REACHING PLACES NEVER  
GOT THAT SIMPLE.  
THAT TOO, WHEN OPERATING  
FROM A SINGLE LOCATION.

## HERO HONDA IN THE MARKET



## SEGMENT PERFORMANCE

Hero Honda in 2006-07 accounted for 39.4 per cent of the Indian two wheeler market. The Company maintained its grip in the motorcycle segment with a market share of 45.7 per cent.

In the entry segment, Hero Honda upgraded the existing CD Dawn and CD Deluxe to give its customers more value for money. The new CD Deluxe sports a stylish visor, a contemporary trapezoidal multi-reflector headlight and a larger fuel-tank with knee grip along with other aesthetic features.

Earlier, market share in the entry segment had dipped to 16 per cent but the new CD Dawn and CD Deluxe helped Hero

1.2 per cent in October 06, CBZ commanded a segment share of more than 20 per cent by the end of March 2007. The sparkling sales of this bike came about even as the rest of the industry went into a tailspin in the last quarter of 2006-07.

In January 2006, Hero Honda made its debut in the scooter segment with a 100 cc offering called Pleasure aimed at women commuters and homemakers. Apart from regular dealerships, this product is also being sold through 'Just 4 Her' exclusive women showrooms, and is clearly having an impact on target customers. During the year, Hero Honda sold close to 1,00,000 scooters. Between January and March 2006, around 12,000

have proved that it is possible to regain market share with fundamentally strong products that are carefully positioned, and are backed by strong marketing support.

Sustaining market share will not be an easy task. Yet the company is confident about consolidating its position in the market with thoughtful planning and smart execution.

### Export performance

During the year, Hero Honda increased exports by 5 per cent compared to the previous year. The new models, CD Dawn, Glamour and CBZ X-treme have been launched successfully in each of



Honda recover lost ground dramatically. The Company ended March 2007 with a 33.4 per cent share in the entry segment.

Hero Honda continued to stride the deluxe segment like a colossus with a 67 per cent share for the entire financial year. During the year under review, sales rose by 16 per cent to 24,03,065 units, and the flagship Splendor family accounted for sales of more than 1.5 million.

Hero Honda capped its performance in the premium segment with the CBZ X-treme. From a segment share of

units of scooters were sold; a year later, close to 20,000 scooters was sold in the same period, indicating a growth momentum.

The Company's performance across various segments during the year sends out some important lessons. First, despite the high base, the deluxe segment continues to be the prime driver of the motorcycle industry in India, and Hero Honda's strong offerings in this segment give it a virtually unassailable position going forward.

Second, the performance of models like CD Dawn, CD Deluxe and CBZ X-treme

our present export markets, namely Sri Lanka, Bangladesh and Nepal, and the initial response has been extremely positive.

Meanwhile, Hero Honda, which sells its bikes in these countries through Honda-approved distributors, is consolidating its presence. In each of these countries, training centres have been made operational and the workshop in Nepal has been standardised.

## SERENADING THE CUSTOMER





## CUSTOMER FOCUS

Some of our targeted customer programs are instinctive, but most are extremely well thought out, and executed only after sifting through considerable amounts of market research and feedback.

When it comes to making two wheelers, Hero Honda has always believed in 'safety first.' It has introduced Ride Safe, a 'first of its kind' school for two-wheeler training. This school helps learners acquire better riding skills and awareness about vehicle maintenance, road safety and their importance.

The course comprises of lessons on riding and road safety, on-road training, tips on vehicle maintenance and guidance for acquiring driving licenses.

As a policy, all new dealerships will make their debut as 4S (sales, spares, service and safety) dealers. These dealerships will be conducting "Ride Safe" programs in their respective localities to promote safe riding.

Hero Honda launched a 0 per cent retail financing/exchange mela in north and west zone in October and November 2006. A festive "Mobike pe Mobile" offer was also made during the same period. This hugely successful program netted sales of over 500,000 in a single month in October, an unprecedented event in global automobile history.

To gain deeper insights from customers about the Company's products a dealer engagement/satisfaction and a product satisfaction survey was carried out during the year. A price sensitivity study was also done to assess price elasticities of various models. Customer feedback studies were also conducted on new product features such as disc brakes, self start and alloy wheels.

Our Hero Honda Passport Program – where members are eligible for discounts on purchase of spare parts, accessories and services – continues to grow from

strength to strength, and now has more than 3 million members. Pan India service camps for Passport members – Shubh Laabh Utsavs – were also held during the year, and direct contact with customers was established via SMS.

During the year, Hero Honda SURE! certified pre-owned two wheeler program, rolled out across India. SURE! Outlets facilitate buying, selling and exchange of pre-owned Hero Honda two wheelers. Each refurbished two wheeler is certified O.K. after a stringent 110 point check. The refurbishment is done as per the Hero Honda Refurbishment Quality Standards using only genuine Hero Honda parts.

### Awards

Several awards and recognitions were bestowed upon the Company during the year. The prominent ones are:

- The NDTV Profit Car India & Bike India Awards 2007 in the following category:

- Overall "Bike of the Year" - CBZ X-treme
- "Bike of the Year" - CBZ X-treme (up to 150 cc category)
- "Bike Technology of the Year" - Glamour PGM FI

- "Auto Tech of the Year" - Glamour PGM FI by Overdrive Magazine
- "Bike of the Year" - CBZ X-treme by Overdrive Magazine
- "Bike of the Year" - CBZ X-treme by B S Motoring Magazine
- Adjudged 7th Top Indian Company by Wall Street Journal Asia (Top Indian Two Wheeler Company)
- One of the 8 Indian Companies to

enter the Forbes Top 200 list of world's most reputed Companies.

- Top Indian Company in the automobile – two wheeler sector by Dun & Bradstreet - American Express Corporate Awards 2006
- No. 1 in automobile industry by TNS Corporate Social Responsibility Award
- Hero Honda Splendor – India's most preferred two wheeler brand by CNBC Awaaz Consumer Awards 2006
- Best in its class awards for each category by TNS Total Customer Satisfaction Awards 2006:
  - Splendor Plus (Executive)
  - CD Deluxe (Entry)
  - Pleasure (Gearless Scooters)
- Top two models in two wheeler category – Splendor & Passion by ET Brand Equity Survey 2006

## OPERATIONS





## MANUFACTURING

During the year, Hero Honda completed its capacity expansion at its Dharuhera plant. This will take Company's total installed capacity to 3.9 million units a year. The expansion at the two plants (capacity expansion at the Gurgaon plant was completed in 2005-06) should take care of Hero Honda's market requirements in the short term.

For the medium term, the Company is in the process of setting up a state-of-the-art new manufacturing facility at Haridwar in the state of Uttarakhand. A suitable ancillary park is also being set up in close proximity to the new plant.

Tier II & III suppliers are also in the process of setting up units in the region, to ensure a fully integrated supply chain.

In a competitive market where quality is a crucial differentiator, Hero Honda has placed considerable emphasis on efficiency, cost and productivity. During the year, the Company made investments to augment a number of its process capabilities.

Direct online networks with vendors are now in place to ensure seamless flow of parts from vendor units to the factories. The machine shop and welding facilities have been automated, and the paint shops have been revamped. Each of these upgrades will significantly boost the Company's production and process capabilities.

The efforts are, in fact, already visible and manufacturing costs as a proportion of total costs came down from 1.74 per cent to 1.67 per cent. Creditably, these costs have been pruned despite erratic electricity supply and repeated hikes in the tariffs during the year.

## VENDOR MANAGEMENT

Vendor management is critical to Hero Honda, as nearly 73 per cent of the production is currently made up of material cost. A national network of 256 vendors - including 36 ancillaries - forms the backbone of our plant operations.

To improve plant efficiencies and inventory turns, Hero Honda has extended "Just in Time" (JIT) beyond the shopfloor. Vendors are also making critical investments in quality and capacity in collaboration with us. For example, the online vendor connectivity program has made rapid progress. Two years ago, the Company had only 46 vendors connected online to the factories, and there are 135. As a result, Hero Honda is able to manage with 2 hour inventories for 40 per cent of its components. In all, HHML does not have to keep more than a day's inventories for the balance. These inventory levels are among the best in the Indian industry, and the Company's efficient materials management system has helped it cope in an extremely difficult market.

To rationalise the supply chain further, the company is now switching to system purchases and also looking at global procurement. It is exploring the possibility of sourcing from nearby countries like Thailand - with which India has a free trade agreement.

## DISTRIBUTION NETWORK

The Company has a conscious strategy of penetrating new markets and unrepresented territories through its distribution network, dealers, authorised representatives, stockists and service and spares points (SSPs). In March 2001,

the Company had 826 such sales and service points in India. By March 2007, this number went up to over 3000. All the four marketing zones of Hero Honda showed an increase in new dealerships and SSPs during the year in review.

During the year, the Company added 36 customer touch points in east India, 53 touch points in north India, 36 touch points in south India and 61 touch points in west India.

The increased penetration in east and north east India is particularly heartening. The Company added eight new customer touch points each in Assam and Orissa, and 11 in West Bengal. Hero Honda also increased its reach into India's interiors, especially in states like Madhya Pradesh, where 15 new customer touch points were added.

## HUMAN RESOURCE MANAGEMENT



## THE HUMAN TOUCH

Hero Honda is continuously making efforts to create a talent pipeline and to develop potential leaders.

The Company encourages employees' feedback for phasing in process improvement and aligning employees' goals with business objectives. The detailed feedback process entered its third year in 2006-07 through the "Gallup Q12 Employee Engagement Study".

The findings from Gallup have already helped managers in building mutual trust and foster teamwork. The findings are helping make Hero Honda a better workplace. At the workman level, for

example, expansion of canteen facilities with better service, improved telephone services, and a revised staff welfare policy were some of the initiatives taken during the year.

Hero Honda has always believed that a sustained focus on technology, systems and human resources, especially at the worker level, holds the key to achieving excellence. To achieve this, a technical training Institute (Gurukul) has been created in Dharuhera and Haridwar. The state of the art Institute is self-reliant in providing technical expertise to the workforce in these manufacturing locations.

A wide array of HR processes have been designed with global best practices in mind. The idea is to create an amiable and highly evolved work environment.

Women employees of the company are encouraged to balance work and home. The Company acknowledges their strength and versatility. As a result, programs were specially tailored and organized for women during the year to create better work life balance. The objective has been to reduce stress and increase productivity.

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## RESEARCH & DEVELOPMENT

### VALUE ENGINEERING

The Hero Group first accessed Honda technology in 1985-86 through a technical collaboration. Since then, the Company has accessed some of the best automobile technology in the world. It has also developed requisite infrastructure and expertise to develop, test and approve products in-house as per Honda specifications and acceptance criteria.

The Company's R&D is online with the Honda factory in Kumamoto for instant data transfer. This helps in the transfer of design data instantly, and facilitates quicker responses to the market. Honda's own R&D office in Gurgaon, also collaborates with Hero Honda on a regular basis.

Over a two decade period Hero Honda has also collated huge amounts of market feedback data on the evolving needs of the Indian two wheeler user. This has given the Company key insights into Indian conditions and segment-centric customer requirements.

This domain knowledge, combined with Honda R&D – has made it possible to increase the level of customisation at the design stage. In turn this has contributed hugely to Hero Honda's success.

Hero Honda's research capabilities has helped in large-scale localisation and integration. The fact that your Company was able to launch an unprecedented eight new models during the year, is

testament to Hero Honda's value engineering capabilities.

More than two decades ago, your company created a new paradigm in the motorcycle industry by introducing four-stroke technology. With Fuel Injection Technology, Hero Honda has created another important benchmark, in the process setting off a trail for the rest of the industry to follow.

The launch of the Glamour PGM FI bike is a case in point, Fuel Injection technology was previously available only in cars was introduced for the first time in two wheelers by the Company. Fuel Injection has a number of unique features; including better driving experience and the convenience of smoother ride.



THERE ARE THOUSAND  
WAYS TO LIVE YOUR LIFE.  
BUT ONLY A FEW WAYS TO  
CELEBRATE IT.



## ENVIRONMENT MANAGEMENT





## ENVIRONMENT MANAGEMENT

The Company believes in creating a sustainable enterprise, and for this, it is critical to strike the right balance between business, mankind and nature.

The Company has ensured complete compliance with all applicable environmental regulations and practices. It has been granted consent to operate under the Water Act and Air Act up to March 31, 2010 for both plants at Gurgaon and Dharuhera. However, in practice, your company has sought to go way beyond compliance standards mandated by law. For example, in-house prescribed standards for treated effluents are 10 per cent more stringent than the prescribed standards.

During the year, your Company successfully developed primer from waste paint sludge - which used to be incinerated earlier. As part of a pilot project, 15 Metric Tons of sludge was converted into primer, which was then used on our products. The recycled primer has passed all quality parameters and at par with the virgin primer. Your Company now plans to embed this ecologically friendly and cost effective recycling process as part of its regular manufacturing operations.

As part of its plan to conserve water a recycling plant of 300KL/day capacity was installed at Gurgaon. The plant recycles sewage effluent into the cooling towers. A similar project has also been planned at Dharuhera in 2007-08. During the year, your Company managed to reduce overall water consumption by 7 per cent.

Hero Honda also seeks to continuously create environmental awareness among its employees. Fourteen resource persons have been trained by the National Productivity Council who have successfully passed the examination of Bureau of Energy Efficiency (BEE) and become certified energy managers/auditors.

### Cleaner Processes

The Company's program for substituting of toxic substances, for example, Hexavalent Chromium in the electroplating/Alodine processes is in progress. Hero Honda expects to generate Hexavalent Chromium free effluent from its plants and also substitute Hex. Chromium at 27 Vendor locations in 2007-08.

The Company has also eliminated asbestos - a harmful carcinogen - from its manufacturing operations.

### The Green Supply Chain

The Company has put together a "Green Vendor Development Program" for the front end and a "Green Dealer Development Program" for the back end of the supply chain.

Hero Honda plans to support all its partners in the Green Supply Chain venture by developing required competencies, sharing knowledge, and by providing technical support.

### Managing Scarce Resources

Ground water recharging has been improved in 2006-07 by adding 6 more injection wells covering an additional area of 10351 sq m. It has also been decided to extend the rainwater harvesting scheme for roads and other pucca surfaces in the plants.

One of India's most-well known civil society organisations - the Centre for Science & Environment (CSE) has adopted Hero Honda's rain water harvesting project as a model project for enhancing public awareness.

### Spreading Awareness

To enhance the awareness amongst employees and other stake holders, March 2007 was observed as Environment, Health & Safety Month. During the month a number of promotional activities were organised. Hero Honda has also participated in developing an International Standard known as "Better Environmental Sustainability Targets (BEST) Standards" for Lead - Acid Batteries Manufacturers. A conference of Electroplating companies, involved in the supply chain, was also organised during the year to discuss environmental and new technological issues in electroplating.

### Green Awards

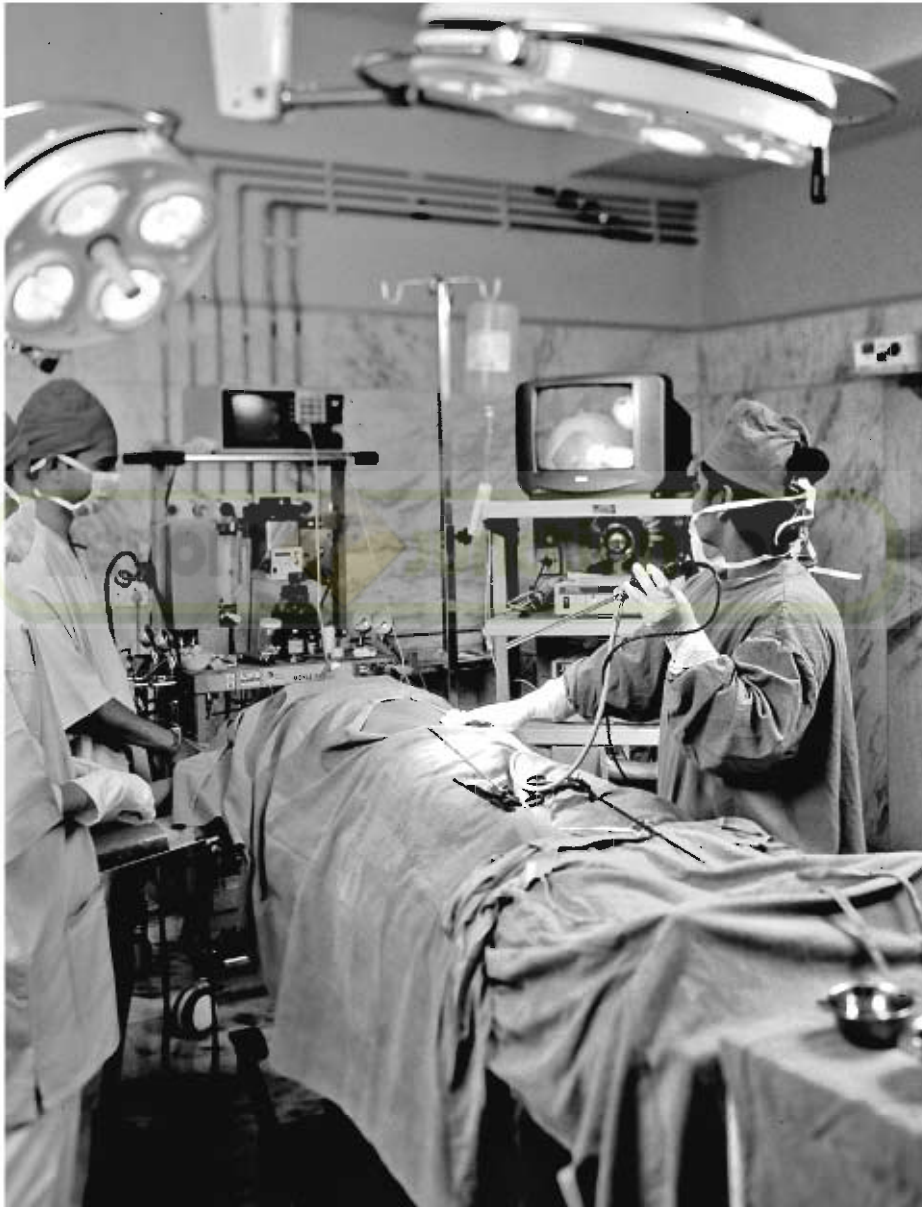
For its diverse environment initiatives, the Company has received the following certifications:

- Environmental Management Systems as per ISO 14001
- Occupational Health and Safety Management Systems as per OHSAS18001
- Quality Management Systems as per ISO 9001

Hero Honda Motors Ltd. has been awarded for Safety Performance and Best Maintenance of Environment in the plant by the Government of Haryana for the year 2006.

As leaders in the automotive industry, Hero Honda fully realises its responsibility as an opinion leader in the fast changing industrial environment. Owning the responsibility along with the knowledge that a cleaner, pollution free environment is the only way forward, it is committed to usher in change in manufacturing and supply chain processes.

## CORPORATE SOCIAL RESPONSIBILITY



## REACHING OUT, TOUCHING LIVES

Hero Honda Motors takes considerable pride in its community relationships, especially ones at the grassroots that have evolved over time. The Company has played a pivotal role in bringing an economically and socially backward region in Dharuhera, Haryana, into the national economic mainstream.

An Integrated Rural Development Centre has been set up on 40 acres of land along the Delhi-Jaipur Highway. The Centre - complete with wide approach roads, clean water, and education facilities for both adults and children - now nurtures a vibrant, healthy and empowered community.



Most of the group's social enterprises - including the Rural Development Centre - are planned and executed by the Raman Kant Munjal Foundation.

Set up in 1992, the Foundation has adopted specific villages located within 10 kms of the Hero Honda factory at Dharuhera for integrated rural development. Deep bore hand pumps have been installed to provide clean drinking water. Roads have been paved to connect these villages to the National Highway. Four primary school buildings have been renovated and provided with hygienic water and toilet facilities.

A proper drainage system has been constructed at each village to prevent water-logging. The group also gives

subsidies for setting up biogas plants, which provide essential cooking fuel to the families in and around Dharuhera.

In next 6 months to one year, a model village is being established with infrastructure comparable with any modern urban town. In addition to basic amenities & utilities the village will have rain water harvesting provision as well as 100 per cent employable youth.

The initiatives aren't restricted to physical infrastructure. To create a level playing field for villagers, students studying in local or government schools are provided tuitions & helped with their homework by trained teachers within the village itself. This scheme is currently operational in seven villages.

To help local people, especially women, Hero Honda has set up a vocational training centre which runs a 6 month Diploma Course for tailoring, embroidery and carpet weaving etc. A total of 700 girls have been trained till date, and the Centre has a 100 percent placement record in the Garment Export industry located nearby. A number of women from this institute have also branched out on their own. The Foundation is now planning a



larger centre with capacity to train 70 - 80 girls per batch (currently, batches of 25 are trained). There are also plans to expand the curriculum to include beauty therapy, cooking and food processing.

A vocational training centre for boys is also being set and will train village youth not opting for higher education. To begin with, practical skills such as Welding, Plumbing, Carpentry, and Electrical fittings - which are in great demand against the backdrop of a construction boom in the region - will be taught.

At another level, a polytechnic centre in collaboration with NTTF is being set up for training students in various skills related to



Automobile Industry (Manufacturing sector) such as Tool Designing & Tool / Dye making, Fitter, Mechanic and Operators for sheet metal and plastic components manufacturing.

The Foundation also runs an Adult Literacy program, a marriage facilitation service for underprivileged girls, besides doorstep healthcare programs and with medical camps for the local population.

In February 2007, Foundation also set up a computer training & learning centre in partnership with Microsoft. The first batch of 70 students (20 girls & 50 boys) have passed out with a Microsoft award DCA (Diploma in Computer Application). The centre plans to train a total of 1200 students per year. In addition, a Spoken English Course - once again in association with Microsoft - is also being introduced up shortly to make these students eligible for BPO & Call Centers based in the city of Gurgaon.

## CORPORATE INFORMATION





## Statutory Auditors

A.F. Ferguson & Co.  
Chartered Accountants,  
9, Scindia House,  
Kasturba Gandhi Marg,  
New Delhi 110 001, India

Registered &  
Corporate Office

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## Principal Bankers

Punjab National Bank  
Citibank N.A.  
The Bank of Tokyo-Mitsubishi UFJ Limited  
ABN Amro Bank N.V.  
HDFC Bank Limited  
Standard Chartered Bank  
ICICI Bank Limited  
HSBC Limited  
Bank of America NT & SA  
Canara Bank

## Dharuhera Plant

69 KM Stone,  
Delhi-Jaipur Highway,  
Dharuhera, Distt. Rewari,  
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Fax : 01274-267 024

Technical &  
Financial Collaborators

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## Gurgaon Plant

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Delhi-Jaipur Highway,  
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Haryana 122 001, India  
Tel.: 0124-2372 123-134  
Fax : 0124-2373 141-142





## FINANCIAL HIGHLIGHTS & KEY RATIOS

### Financial Highlights

(Rupees in Crores)

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
Sales (Nos.)	1677537	2070147	2621400	3000751	3336756
Growth in sales (nos.) (%)	17.7	23.4	26.6	14.5	11.2
Total net income	5195	5997	7559	8870	10090
Growth in Total income (%)	14.4	15.5	26.1	17.4	13.7
Profit before tax	885	1072	1217	1412	1246
Profit after tax	581	728	810	971	858
Share capital	39.94	39.94	39.94	39.94	39.94
Reserves and Surplus	821	1099	1453	1969	2430
Total debt	134	175	202	186	165
Net fixed assets	517	589	715	994	1355
Total assets (net)	995	1314	1695	2195	2635
Market capitalisation	3758	9797	10943	17781	13753
Economic Value Added (EVA)	481	569	564	641	485

### Key Ratios

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
Long term Debt/Equity	Nil	Nil	Nil	Nil	Nil
OPBDIT*/Net Sales (%)	16.7	16.8	15.7	15.7	11.8
OPBT**/Net Sales (%)	15.5	15.6	14.6	14.4	10.7
Profit after tax/ Total income (%)	11.2	12.1	10.7	11.0	8.5
Return on average equity (%)	75.6	72.9	61.6	55.5	38.3
Return on average capital employed (%)	98.9	92.8	80.9	72.3	50.6
EVA/Capital employed (%)	53.8	49.3	37.5	32.9	20.1
Dividend per share (Rs.)	18	20	20	20	17
Dividend payout (%)	69.8	61.9	56.3	46.9	46.3
Earning per share (Rs.)	29.1	36.5	40.6	48.6	43.0
Market value/book value (times)	4.4	8.6	7.3	8.8	5.6

Notes:

\*OPBDIT: Operating Profit before Depreciation, Interest and Tax

\*\*OPBT: PBT before Other income

## Economic Value Added (EVA) Statement

(Rupees in Crores)

	2002-03	2003-04	2004-05	2005-06	2006-07
Avg Capital Employed	893	1154	1504	1945	2415
Avg Debt/Avg Capital (%)	2.3	2.2	1.8	1.3	1.1
Avg Equity/Avg Capital (%)	97.7	97.8	98.2	98.7	98.9
Cost of Debt (% post-tax )	0.9	0.7	0.7	1.0	0.6
<b>Cost of Equity</b>					
Beta	0.53	0.90	1.01	0.98	0.75
Cost of Risk Free Debt (%)	6.24	5.13	6.67	7.52	8.15
Market Premium (%)	10	10	10	10	10
Cost of Equity (%)	11.54	14.18	16.74	17.32	15.65
<b>EVA</b>					
Profit after Tax	581	728	810	971	858
Add: Interest*(1-tax rate)	1	1	1	2	1
NOPAT=PAT + Interest*(1-t)	582	729	811	973	859
Cost of Capital	101	160	247	333	374
EVA	481	569	564	641	485
Return on Capital Employed (%)	65.1	63.2	54.0	50.0	35.6
Weighted Average Cost of Capital (%)	11.3	13.9	16.5	17.1	15.5
<b>EVA/Capital employed (%)</b>	<b>53.8</b>	<b>49.3</b>	<b>37.5</b>	<b>32.9</b>	<b>20.1</b>
<b>Enterprise Value</b>					
Market Capitalisation	3758	9797	10943	17781	13753
Add: Debt	134	175	202	186	165
Less: Financial Assets	1217	1708	2044	2221	2010
EV (Enterprise Value)	2675	8264	9101	15746	11909
<b>EV/Yr. End Capital Employed (Times)</b>	<b>2.7</b>	<b>6.3</b>	<b>5.4</b>	<b>7.2</b>	<b>4.5</b>

## DIRECTORS' REPORT

On behalf of members of the Board, I take pleasure in presenting our Report together with the Audited Statement of Accounts for the financial year ended March 31, 2007.

## FINANCIAL RESULTS

(Rupees in Crores)

	For the year ended	
	March 31, 2007	March 31, 2006
Gross Sales	11,542.04	10,086.16
Net Sales and other Income	10,089.81	8,870.26
Profit before Finance Charges and Depreciation	1,362.89	1,520.73
Less: Finance charges	(22.99)	(6.13)
Depreciation	139.78	114.62
<b>Profit before tax (PBT)</b>	<b>1,246.10</b>	<b>1,412.24</b>
Less: Provision for tax		
- Current	375.81	415.85
- Deferred	9.42	17.88
- Fringe Benefit Tax (FBT)	2.98	7.17
<b>Profit after tax (PAT)</b>	<b>857.89</b>	<b>971.34</b>
Add: Balance of profit brought forward	1,224.05	808.10
Balance available for appropriation	2,081.94	1,779.44
<b>Appropriations</b>		
Dividend		
- Proposed Final	339.47	399.38
Corporate Dividend Tax	57.69	56.01
Transfer to General Reserve	90.00	100.00
Balance carried to Balance Sheet	1,594.78	1,224.05
Dividend (%)	850	1000
Basic and Diluted Earnings Per Share (EPS) (Rs.)	42.96	48.64

## BUSINESS PERFORMANCE

Your Company achieved an impressive sales of 33, 36,756 units this year registering a growth of 11.2 per cent compared to 30,00,751 units in the previous fiscal. Your Company retains the coveted position of being the World's No.1 two-wheeler company in unit sales for six years in a row. The Company maintained its market leadership position with more than 41 per cent share in the two-wheeler industry.

At the financial end, total income (net of excise duty) of the Company grew by 14 per cent from Rs. 8,870 crores in 2005-06 to Rs. 10,090 crores in 2006-07. The Company posted Profit After Tax (PAT) of Rs. 858 crores in 2006-07 compared to Rs. 971 crores in 2005-06.

During the year, your Company launched eight new models (including variants) targeting all the segments. These included CBZ X-treme, new Karizma, Glamour FI, Glamour with alloy wheels, CD Deluxe, CD Dawn, Passion Plus Limited Edition and the new Achiever with Alloy Wheels.

A detailed discussion on the business performance and future outlook is provided in the chapter on Management Discussion & Analysis (MDA).

## DIVIDEND

We believe that no manufacturing Company in Indian Corporate has a better dividend payout record in recent years. We have recommended a Dividend of 850 per cent (Rs.17) per equity share of Rs.2 aggregating to Rs. 339.47 crores (exclusive of corporate dividend tax) for your approval for the financial year ended March 31, 2007. The dividend, if approved, will be paid to the eligible members well within the stipulated period.

Our dividend policy is in line with our strong belief that if funds are not required for capital investments, they should be optimally distributed to shareholders.

## TRANSFER TO GENERAL RESERVE

A sum of Rs. 90 crores have been transferred to the General Reserve of the Company. This reaffirms the inherent financial strength of the Company.

## MATERIAL CHANGES AND COMMITMENTS

No material changes and commitments affecting the financial position of the Company have occurred between April 1, 2007 and the date on which this Report has been signed.

## BOARD OF DIRECTORS

During the period under review, Mr. Sunil Kant Munjal was appointed as Director in the Non-Executive Director Category in the casual vacancy caused due to the resignation of Mr. Satyanand Munjal, who resigned on October 25, 2006.

Mr. Takao Eguchi, Whole-time Director of the Company resigned from both the offices i.e. Director & Whole-time Director on March 31, 2007. Mr. Yutaka Kudo was appointed as an Additional and Whole-time Director of the Company on April 1, 2007.

Mr. Tatsuhiro Oyama resigned from directorship on May 11, 2007 and Mr. Takashi Nagai was appointed as an Additional Director in Non-Executive Director Category on May 11, 2007.

The Board place on record their sincere appreciation and gratitude for the work put in by the outgoing members, and wishes them a rewarding and satisfying career ahead. The Directors also welcome the new members on the Board and wish them a successful and fruitful tenure with the Company.

At the ensuing Annual General Meeting, Mr. Om Prakash Munjal, Mr. Narinder Nath Vohra, Mr. Analjit Singh and Dr. Pritam Singh will retire by rotation and being eligible, offer themselves for re-appointment in terms of provisions of Articles of Association of the Company. The brief resume/details relating to Directors, who are to be appointed/re-appointed has been furnished after the explanatory statement to the notice of the ensuing Annual General Meeting.

Your Directors recommend their re-appointment at the ensuing Annual General Meeting.

## DIRECTORS' RESPONSIBILITY STATEMENT

To the best of their knowledge and belief and according to the information and explanations obtained by them, your Directors make the following statement in terms of Section 217(2AA) of the Companies Act, 1956 :

1. that in the preparation of the annual accounts for the year ended March 31, 2007, the applicable accounting standards have been followed;
2. that appropriate accounting policies have been selected and applied consistently and judgements and estimates that are reasonable and prudent have been made so as to give a true and fair view of the state of affairs as at March 31, 2007 and of the profit of the Company for the financial year ended March 31, 2007;
3. that proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. that the annual accounts for the year ended March 31, 2007 have been prepared on a going concern basis.

## AUDIT COMMITTEE RECOMMENDATION

During the year there was no such recommendation of the Audit Committee which was not accepted by the Board. Hence, there is no need for the disclosure of the same in this Report.

## MANAGEMENT DISCUSSION & ANALYSIS

A detailed chapter on 'Management Discussion & Analysis'(MDA), pursuant to Clause 49 of the Listing Agreement is annexed to the Annual Report and forms part of this Report.

## CORPORATE GOVERNANCE

At Hero Honda, it is our firm belief that the essence of Corporate Governance lies in the phrase 'Your Company'. It is 'Your' Company because it belongs to you—the shareholders. The Chairman and Directors are 'Your' fiduciaries and trustees. Their objective is to take the business forward in such a way that it maximises 'Your' long-term value.

Your Company is committed to benchmark itself with global standards for providing sound Corporate Governance and has put in place an effective Corporate Governance system—which ensures that the provisions of Clause 49 of the Listing Agreement are duly complied with.

The Board has also evolved and adopted a Code of Conduct based on the principles of Good Corporate Governance and best management practices being followed globally. The Code is available on the website of the Company [www.herohonda.com](http://www.herohonda.com). A report on Corporate Governance along with the Auditors' Certificate on its compliance is annexed hereto as Annexure I.

## INTERNAL CONTROL SYSTEMS

Hero Honda has a proper and adequate system of internal controls. This ensures that all assets are safeguarded and protected against loss from unauthorised use or disposition and those transactions are authorised, recorded and reported correctly.

An extensive programme of internal audits and management reviews supplement the process of internal control. Properly documented policies, guidelines and procedures are laid down for this purpose. The internal control system has been designed so as to ensure that the financial and other records are reliable for preparing financial and other statements and for maintaining accountability of assets.

The Company also has an Audit Committee, comprising four Independent, Non-Executive and professionally qualified Directors, who interact with the Statutory Auditors, Internal Auditors, Cost Auditors and Auditees in dealing with matters within its terms of reference. The Committee mainly deals with accounting matters, financial reporting and internal controls. During the year under review, the Committee met eight times.

## RATINGS

The rating agency CRISIL has reaffirmed their rating granted to various programme / instruments of the Company i.e. 'AAA/Stable' (triple A with stable outlook) rating to Non-Convertible Debenture programme, 'P1+' (P one plus) rating for the Company's Commercial Paper programme as well as the 'FAAA/Stable' (F-Triple A with Stable outlook) rating for its Fixed Deposit programme. All the above ratings indicate

that the degree of safety with regard to timely payment of interest and principal on the instruments is very strong.

Another rating agency, ICRA has also assigned the issuer rating of 'trAAA' ('IR triple A') indicating highest credit quality and lowest credit risk and also reaffirmed 'LAAA' ('L triple A') rating to Non-Convertible Debenture programme of the Company.

## FIXED DEPOSITS

During the year under review, the Company has not accepted any deposit under Sections 58A and 58AA of the Companies Act, 1956 read with the Companies (Acceptance of Deposits) Rules, 1975.

## AUDITORS

M/s. A. F. Ferguson & Co., Chartered Accountants, New Delhi, Auditors of the Company will retire at the conclusion of the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. The Company has received a certificate from the Auditors to the effect that their re-appointment, if made, would be in accordance with Section 224(1B) of the Companies Act, 1956.

The Board recommends their re-appointment.

## AUDITORS' REPORT

The observations of Auditors in their report, read with the relevant notes to accounts are self explanatory and therefore do not require further explanation.

## COST AUDITORS

The Board has re-appointed M/s. Ramanathan Iyer & Co., Cost Accountants, New Delhi, as the Cost Auditors of the Company under Section 233B of the Companies Act, 1956 for the financial year 2007-08 and necessary application from obtaining the requisite approval has been filed with the Government. The Cost Auditors' Report for 2006-07 will be forwarded to the Central Government in pursuance of the provisions of the Companies Act, 1956.

## CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

Information required under Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is given as per Annexure II and forms an integral part of this Report.

## LISTING

The shares of your Company are presently listed on Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE). The delisting application, was in-principle approved by the Committee of the Calcutta Stock Exchange Association Limited, the formal approval is awaited and is expected to be received shortly.

## PERSONNEL

As on March 31, 2007 the total number of employees on the records of the Company were 4322.

Your Directors place on record their appreciation for the significant contribution made by all the employees, who through their competence, hard work, co-operation and support have enable the Company to cross new milestones on a continual basis.

A detailed note is given in the chapter "Human Resource Management" of Management Discussion & Analysis, which forms part of this Annual Report.

## PARTICULARS OF EMPLOYEES

A Statement showing Particulars of Employees as required under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is annexed as Annexure III and forms an integral part of this Report.

## ACKNOWLEDGEMENT

It is our strong belief that caring for our business constituents has ensured our success in the past and will do so in the future. Your

Directors acknowledge with sincere gratitude the co-operation and assistance extended by the Central Government, State Government(s), Financial Institution(s), Bank(s), Customers, Dealers, Vendors and Ancillary Undertakings. The Directors also place on record their appreciation for the valuable assistance and guidance extended to the Company by Hero Cycles Limited and Honda Motor Co., Ltd., Japan and for the encouragement and assurance, which our collaborator has given for the growth and development of the Company.

The Board, also takes this opportunity to express its deep gratitude for the continued co-operation and support received from its valued shareholders.

For and on behalf of the Board



Brijmohan Lal  
Chairman

New Delhi  
May 31, 2007





## ANNEXURE - I TO DIRECTORS' REPORT

### CORPORATE GOVERNANCE REPORT

#### Philosophy on 'Code of Corporate Governance'

Hero Honda's philosophy of Corporate Governance stems from its belief that the Company's business strategy and plans should be consistent with the welfare of all its stakeholders, including shareholders. Good Corporate Governance practices enable a Company to attract financial and human capital and leverage these resources to maximize long-term shareholder value, while preserving the interests of multiple stakeholders, including society at large.

Corporate Governance rests upon the four pillars of: transparency, full disclosure, independent monitoring and fairness to all, especially to minority shareholders. Hero Honda has always strived to promote Good Governance practices, which ensure that:

- A competent management team is at the helm of affairs;
- The Board is strong with an optimum combination of Executive and Non-Executive (including Independent) Directors, who represent the interest of all stakeholders;
- The Board is effective in monitoring and controlling the Company's affairs;
- The Board is concerned about the Company's shareholders; and

- The Management and Employees have a stable environment.

We believe that the essence of Corporate Governance lies in the phrase "Your Company". It is "Your" Company because it belongs to you – the shareholders. The Chairman and Directors are "Your" fiduciaries and trustees. Their objective is to take the business forward to maximise "Your" long-term value.

The Securities and Exchange Board of India (SEBI) has specified certain mandatory governance practices, which are incorporated in Clause 49 of the Listing Agreement of Stock Exchanges.

Hero Honda is committed to benchmark itself with the best standards of Corporate Governance, not only in form but also in spirit. This section, along with the section on 'Management Discussion & Analysis' and 'General Shareholder's Information' constitute Hero Honda's compliance with the Clause 49 of the Listing Agreement.

### BOARD OF DIRECTORS

#### Composition of the Board

As on March 31, 2007, the Company's Board of Directors consisted of sixteen Directors. Four Directors, including the Chairman are Executive; four are Non-Executive and eight are Non-Executive and Independent. As fifty per cent of the Board consists of Independent Directors, the composition of the Board is in consonance with the Clause 49. Details of the composition of the Board, number of meetings held during their tenure and attended by them etc., are given in Table 1.

TABLE 1: DETAILS ABOUT COMPANY'S BOARD OF DIRECTORS / ATTENDANCE RECORD DURING FINANCIAL YEAR 2006-07

Name of Director	Number of Board Meetings held during his/her tenure and attended by him/her		Attendance at last AGM	Number of Committee memberships (including chairmanships) held	Number of Committee Chairmanships held	Number of outside Directorships held
	Held	Attended		(excluding Private Companies, Foreign Companies, Section 25 Companies)		
<b>Executive Directors</b>						
Mr. Brijmohan Lall Munjal	5	5	Yes	None	None	8
Mr. Pawan Munjal	5	5	Yes	None	None	1
Mr. Toshiaki Nakagawa	5	4	Yes	None	None	1
Mr. Takao Eguchi <sup>7</sup>	5	5	Yes	None	None	1
<b>Non-Executive Directors</b>						
Mr. Satyanand Munjal <sup>5</sup>	3	1	No	None	None	5
Mr. Om Prakash Munjal	5	1	Yes	None	None	10
Mr. Sunil Kant Munjal <sup>6</sup>	2	2	N.A	None	None	9
Mr. Masahiro Takedagawa <sup>4</sup>	5	1	No	1	None	2
Mr. Tatsuhiro Oyama <sup>2</sup>	5	None	No	None	None	1
<b>Non-Executive and Independent Directors</b>						
Mr. Narinder Nath Vohra	5	5	Yes	2	1	1
Mr. Pradeep Dinodia	5	5	Yes	6	4	7
Gen. (Retd.) Ved Prakash Malik	5	5	Yes	4	None	3
Mr. Satoshi Toshida <sup>1</sup>	None	None	N.A	None	None	None
Mr. Motohide Sudo <sup>3</sup>	None	None	N.A	None	None	None
Mr. Analjit Singh	5	2	No	None	None	11
Dr. Pritam Singh	5	5	Yes	3	None	3
Dr. Vijay Laxman Kelkar	5	2	No	4	None	10
Ms. Shobhana Bhartia	5	2	No	2	1	13
Mr. Sunil Bharti Mittal	5	2	No	None	None	6

**Notes:**

1. Mr. Satoshi Toshida has resigned from his Directorship on May 30, 2006.
2. Mr. Tatsuhiro Oyama was appointed as a Director in casual vacancy caused due to resignation of Mr. Satoshi Toshida w.e.f. May 30, 2006.
3. Mr. Motohide Sudo has resigned from his Directorship on May 30, 2006.
4. Mr. Masahiro Takedagawa was appointed as an Additional Director on the Board w.e.f. May 30, 2006.
5. Mr. Satyanand Munjal has resigned from his Directorship w.e.f. October 25, 2006.
6. Mr. Sunil Kant Munjal was appointed as a Director in casual vacancy caused due to resignation of Mr. Satyanand Munjal w.e.f. October 25, 2006.
7. Mr. Takao Eguchi has resigned from his Directorship on March 31, 2007 and ceased to be a Director w.e.f. April 1, 2007.

Four Directors namely Mr. Brijmohan Lall Munjal (Executive Chairman in the whole-time employment of the Company), Mr. Pawan Munjal (Managing Director & CEO), Mr. Om Prakash Munjal (Non-Executive Director) and Mr. Sunil Kant Munjal (Non-Executive Director) belong to the promoter family of the Hero Group, which owns 26 per cent equity in the Company. Four Directors namely Mr. Toshiaki Nakagawa (Joint Managing Director), Mr. Takao Eguchi (Executive Director), Mr. Masahiro Takedagawa (Non-Executive Director) and Mr. Tatsuhiro Oyama (Non-Executive Director) are nominees of Honda Motor Co., Ltd., Japan, which too, owns 26 per cent equity in the Company. Apart from these, the rest of the Board constitutes of Non-Executive and Independent Directors.

### Board Meetings

During 2006-07, the Board of Directors met 5(five) times on May 30, 2006; July 11, 2006; September 14, 2006; October 25, 2006 and January 31, 2007.

The longest gap between any two Board Meetings was for a period of 3 months and 6 days.

### Directors' Attendance Record and Directorships/Committee Memberships

Details are given in Table 1.

As per Clause 49 of the Listing Agreement entered into with the Stock Exchange(s), an Independent Director means a Non-Executive Director who;

- apart from receiving director's remuneration, does not have any material pecuniary relationships or transactions with the Company, its promoters, its directors, its senior management, its holding company, its subsidiaries or associates which may affect independence of the director;
- is not related to promoters or persons occupying management positions at the board level or at one level below the board;
- has not been an executive of the company in the immediately preceding three financial years;
- is not a partner or an executive of the statutory audit firm or the internal audit firm that is associated with the company and has not been a partner or an executive of any such firm for the last three years and the legal firm(s) and consulting firm(s) that have a material association with the entity.
- is not a material supplier, service provider or customer or a lessor or lessee of the company, which may affect independence of the Director;
- is not a substantial shareholder of the Company i.e. owning two percent or more of the block of voting shares.

None of the Director on the Board holds the office of Director in more than 15 companies nor are they members in Committees of the Board in more than 10 Committees or Chairman of more than 5 Committees.

Further, there are no pecuniary relationships or transactions between the Independent Directors and the Company, except for the sitting fees drawn by the Independent Directors for attending the meetings of the Board and its Committee(s) thereof.

### Shareholding of Non-Executive Directors

Name of Director	Category	No. of shares held
Mr. Om Prakash Munjal	Non-Executive Director	25,000
Mr. Sunil Kant Munjal	Non-Executive Director	32,500

Apart from the above, none of the Non-Executive (including Independent) Directors hold any shares (as own or on behalf of other person on beneficial basis) in the Company.

### Information Supplied to the Board

Board members are given agenda papers along with necessary documents and information in advance of each meeting of the Board and Committee(s). In addition to the regular business items, the following items/information are regularly placed before the Board to the extent applicable:

- Annual operating plans and Budgets, Capital budgets and updates;
- Purchase and disposal of major fixed assets;
- Quarterly and half yearly results of the Company;
- Minutes of the Audit Committee and other Committee meetings;
- Information on recruitment and remuneration of senior management just below the Board level including appointment or removal of CFO and Company Secretary;
- Any material defaults in financial obligations to and by the Company, or substantial non-payments for goods sold by the Company;
- Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems;
- Transactions that involve substantial payment towards goodwill, brand equity or intellectual property;
- Materially important show cause, demand, prosecution and penalty notices;
- Details of Quarterly foreign exchange exposures and steps taken by the management to limit the risks of adverse exchange rate movement;
- Sale of material nature, of investments and assets, which are not in the normal course of business;
- Details of Joint Ventures and Agreements or variations thereof;
- Quarterly Statutory Compliance Report;

- Directors' overseas traveling expenses;
- Non-compliance of any regulatory, statutory nature or listing requirements and shareholder's service such as non-payment of dividend, delay in share transfer etc.;
- Investments strategy/plan;
- Any issue which involves possible public or product liability claims of substantial nature, including any judgement or order which may have passed strictures on the conduct of the Company or taken an adverse view regarding another enterprise that can have negative implications on the Company; and
- Significant labour problems and their proposed solutions. Also, any significant development in Human Resources/Industrial Relations front like signing of Wage Agreement, implementation of Voluntary Retirement Schemes etc.

### Code of Conduct

We at Hero Honda have laid down a code of conduct for all Board members and senior management of the Company. The code of conduct is available on the website of the Company [www.herohonda.com](http://www.herohonda.com). The code has been circulated to all the members of the Board and senior management and they have affirmed compliance with the code of conduct. A declaration signed by the Chief Executive Officer (CEO) to this effect is attached to the Annual Report.

### Risk Management

We at Hero Honda have established an effective risk assessment and minimization procedures, which are reviewed by the Board periodically. There is a structure in place to identify and mitigate various risks faced by the Company from time to time.

## BOARD LEVEL COMMITTEES

### Audit Committee

The genesis of Hero Honda's Audit Committee can be traced back to the Audit Sub-Committee, constituted in 1987. Since then it has been dealing with matters prescribed by the Board of Directors on a case-by-case basis. In general, the primary role/objective of the Audit Committee is to review the financial statements of the Company, strengthen internal controls & look into all transactions having monetary implications on the functioning of the Company. The nomenclature, constitution and terms of reference of the Committee were revised on January 16, 2001 and an Audit Committee was set up as per the provisions of the Section 292A of the Companies Act, 1956 and Clause 49 of the Listing Agreement of the Stock Exchange(s).

As on March 31, 2007, the Committee had four Non-Executive and Independent Directors in accordance with the prescribed guidelines. Mr. Pradeep Dinodia, a leading Chartered Accountant, is the Chairman of the Committee. The other members are Dr. Pritam Singh, Gen.(Retd.) Ved Prakash Malik and Mr. Narinder Nath Vohra.

The members of the Committee have adequate knowledge in the field of finance, accounting, and law. The role and "terms of reference" of the Audit Committee includes the following:

- Overseeing the Company's financial reporting process and disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.
- Recommending the appointment, re-appointment, replacement and removal of the statutory auditor, fixation of audit fees and approving payments for any other services.
- Reviewing with the management the annual financial statements with primary focus on matters required to be included in the Directors' Responsibility Statement, changes, if any in accounting policies and practices and reasons thereof, compliance with accounting standards and guidelines of stock exchange(s), major accounting entries, qualifications in draft audit reports, related party transactions & the going concern assumption.
- Reviewing, with the management, the quarterly financial statements before submission to the board for approval.
- Compliance with Stock Exchange(s) and legal requirements concerning financial statements.
- Reviewing the adequacy of internal control systems and the internal audit function and reviewing the company's financial and risk management policies.
- Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control system of a material nature and reporting the matter to the Board.
- Reviewing reports furnished by the internal auditors, discussion with internal auditors on any significant findings and ensuring suitable follow up thereon.
- Discussing with external auditors before the audit commences, of the nature and scope of audit. Also post audit discussion to ascertain any area of concern.
- Directors' overseas traveling expenses.
- Review of foreign exchange exposure.
- To look into the reasons for substantial defaults in the payments to the depositors, debentureholders, shareholders (in the case of non-payment of declared dividends) and creditors.

The Sr. Vice President & CFO, Internal Auditors, Statutory Auditors and Cost Auditors attend the meetings of the Committee on the invitation of the Chairman. Mr. Ilam C. Kamboj, G. M. Legal & Company Secretary act as the Secretary of the Committee.

During the year, 8 (Eight) meetings of the Audit Committee were held on May 30, 2006; June 29, 2006; July 11, 2006; September 14, 2006; October 3, 2006; October 9, 2006; October 25, 2006; and January 30, 2007 in due compliance with the stipulated provisions. The attendance record of members of the Audit Committee is given in Table 2.

TABLE 2: DETAILS OF THE AUDIT COMMITTEE

Name of committee member	Position held	No. of meetings held during his tenure	No. of meetings attended
Mr. Pradeep Dinodia	Chairman	8	8
Gen. (Retd.) V.P. Malik	Member	8	6
Dr. Pritam Singh	Member	8	8
Mr. N.N.Vohra	Member	8	7

### Remuneration Committee

The Company had set up a Remuneration Committee on January 16, 2001 to review and recommend the payment of annual salaries, commission, and finalise service agreements and other employment conditions of Executive Directors. The Committee takes into consideration the best remuneration practices being followed in the industry while fixing appropriate remuneration packages.

As on March 31, 2007, the Committee had three Non-Executive and Independent Directors in accordance with the prescribed guidelines. Gen. (Retd.) V.P. Malik, is the Chairman of the Committee. The other members are Mr. Narinder Nath Vohra and Mr. Pradeep Dinodia. Mr. Ilam C. Kamboj, G. M. Legal & Company Secretary act as the Secretary of the Committee.

During the year, 2 (Two) meetings of the Remuneration Committee were held on July 11, 2006 & March 6, 2007 in due compliance with the stipulated provisions to consider the terms of appointment and remuneration of Mr. Brijmohan Lall Munjal, Mr. Pawan Munjal and Mr. Yutaka Kudo. The attendance record of members of the Remuneration Committee is given in Table 3.

TABLE 3: DETAILS OF THE REMUNERATION COMMITTEE

Name of committee member	Position held	No. of meetings held during his tenure	No. of meetings attended
Gen. (Retd.) V.P. Malik	Chairman	2	2
Mr. N.N.Vohra	Member	2	2
Mr. Pradeep Dinodia	Member	2	2

### Remuneration Policy

The remuneration paid to Executive Directors is recommended by the Remuneration Committee and approved by the Board of Directors, in the Board meeting, subject to the subsequent approval by the shareholders at the general meeting and such other authorities, as the case may be.

At the Board meeting, only the Non-Executive and Independent Directors participate in approving the remuneration paid to the Executive Directors. The remuneration is fixed considering various factors such as qualification, experience, expertise, prevailing remuneration in the corporate world and the financial position of the Company. The remuneration structure comprises of Basic Salary,

Commission, Perquisites and allowances, Contribution to provident fund and other funds. Besides these, a fixed commission @ 1 per cent of net profit computed in accordance with Section 198 of the Companies Act, 1956, is paid as per the terms of appointment. The Non-Executive Directors do not draw any remuneration from the Company except sitting fees of Rs. 16,500 for each meeting of the Board, Audit Committee, Remuneration Committee and Shareholders' Grievance Committee attended by them.

### Remuneration Paid to Directors

Table 4 and 5 gives details of remuneration paid to Directors. During 2006-07, the Company did not advance any loans to any of its Directors. As of now, the Company does not have any Employee Stock Option Plan (ESOP). Service contract for Executive Director is 5 years. Further, no notice period and severance fee is applicable for the above-mentioned Executive Directors.

### Shareholders' Grievance Committee

This Committee, constituted on January 16, 2001, specifically looks into redressal of shareholders' and investors' grievances arising out of issues regarding share transfers, dividends, dematerialisation and related matters.

As on March 31, 2007, the Committee had three Non-Executive and Independent Directors in accordance with the prescribed guidelines. Mr. Narinder Nath Vohra, is the Chairman of the Committee. The other members are Dr. Pritam Singh and Mr. Pradeep Dinodia. Mr. Ilam C. Kamboj, G. M. Legal & Company Secretary act as the Secretary of the Committee.

The Company has an efficient system of dealing with investors' grievances. The Chairman and the Managing Director & CEO of the Company take personal interest in all matters of concern for investors as and when necessary. The Company Secretary being the Compliance Officer carefully looks into each issue and reports the same to the Shareholders' Grievance Committee. In the meetings of the committee the status of all shareholders' complaints, requests etc. alongwith letters received from all statutory authorities were reviewed.

During the year, 4 (four) meetings of the Shareholders' Grievance Committee were held on May 30, 2006; July 11, 2006; October 25, 2006 and January 30, 2007.

Details of shareholders complaints and their status are given in the section on "General Shareholder's Information". The attendance record of members of the Shareholders' Grievance Committee is given in Table 6.

TABLE 4: REMUNERATION TO EXECUTIVE DIRECTORS

Executive Directors	Salary*(Rs.)	Commission Fixed ** (Rs.)	Total (Rs.)
Mr. Brijmohan Lall Munjal	97,02,038	13,02,50,000	13,99,52,038
Mr. Pawan Munjal	86,31,999	13,02,50,000	13,88,81,999
Mr. Toshiaki Nakagawa	41,58,404	13,02,50,000	13,44,08,404
Mr. Takao Eguchi	29,77,005	13,02,50,000	13,32,27,005

**Notes**

\* Salary includes Basic Salary, Perquisites and allowances, Contribution to provident and other funds.

\*\* Total Commission is calculated @ 1% of the net profit calculated in accordance with Section 198 of the Companies Act, 1956.

TABLE 5: REMUNERATION TO NON-EXECUTIVE DIRECTORS

Non-Executive Directors	Sitting fees (Rs.)	Commission (Rs.)	Total (Rs.)
Mr. Om Prakash Munjal	16,500	N.A.	16,500
Mr. Satyanand Munjal	16,500	N.A.	16,500
Mr. Pradeep Dinodia	3,13,500	N.A.	3,13,500
Mr. Sunil Kant Munjal	33,000	N.A.	33,000
Mr. Narinder Nath Vohra	2,97,000	N.A.	2,97,000
Gen.(Retd.) Ved Prakash Malik	2,14,500	N.A.	2,14,500
Mr. Analjit Singh	33,000	N.A.	33,000
Dr. Pritam Singh	2,80,500	N.A.	2,80,500
Ms. Shobhana Bhartia	33,000	N.A.	33,000
Dr. Vijay L. Kelkar	33,000	N.A.	33,000
Mr. Sunil Bharti Mittal	Nil*	N.A.	Nil*
Mr. Masahiro Takedagawa	Nil*	N.A.	Nil*

No sitting fee was paid to Mr. Tatsuhiro Oyama, as he did not attend any of the meetings of the Board held during the financial year 2006-07.

\* Mr. Sunil Bharti Mittal & Mr. Masahiro Takedagawa have opted not to receive sitting fees which was accrued to them on account of attending the meetings of the Board.



**TABLE 6: DETAILS OF SHAREHOLDERS' GRIEVANCE COMMITTEE**

Name of committee member	Position held	No. of meetings held during his tenure	No. of meetings attended
Mr. N.N Vohra	Chairman	4	4
Mr. Pradeep Dinodia	Member	4	4
Dr. Pritam Singh	Member	4	4

**Committee of Directors**

Apart from these Committees, the Company also has a Committee of Directors. As on March 31, 2007, the Committee comprised of Mr. Brijmohan Lal Munjal, Chairman; Mr. Pawan Munjal, Managing Director & CEO; Mr. Toshiaki Nakagawa, Joint Managing Director; Mr. Takao Eguchi, Whole-time Director; Mr. Ravi Sud, Sr. Vice President & CFO and Mr. Ilam C. Kamboj, G. M. Legal & Company Secretary as members.

Constituted in 1985, the Committee deals with matters relating to transfer, transmission and transposition of shares, issue of new share certificates, review of dematerialisation of shares, all matters relating to shares and all other matters as prescribed and delegated to the Committee by the Board from time to time.

This Committee generally meets four times in a month. During the year under review 42 (forty two) meetings of the Committee were held.

**Share Transfer Committee**

During the year under review to further streamline and as a matter of Good Corporate Governance practice, a Share Transfer Committee was formed and all the work related to share transfer etc. which was earlier approved by the Committee of Directors was delegated to the newly formed Committee.

The Board of Directors in their meeting held on January 31, 2007 nominated Mr. Ravi Sud, Sr. Vice President & CFO and Mr. Ilam C. Kamboj, G. M. Legal & Company Secretary as its members.

This Committee meets whenever required. During the year under review 8 (eight) meetings of the Committee were held.

**DISCLOSURES****Related Party Transactions**

The Company follows the following policy in disclosing the related party transactions to the Audit Committee:

- A Statement in the Summary form of transactions with related parties in the ordinary course of business is placed periodically before the Audit Committee.
- There are no material individual transactions with related parties,

which are not in the normal course of business and which are not on an arm's length basis.

**Disclosures on materially significant related party transactions that may have potential conflict with the interest of the Company at large.**

There are no materially significant transactions made by the Company with its promoters, Directors or Management or relatives etc. that may have potential conflict with the interest of the Company at large.

**Accounting Treatment in Preparation of Financial Statements**

The guidelines/accounting standards laid down by the Institute of Chartered Accountants of India (ICAI) have been followed in preparation of the financial statements of the Company.

**Compliances by the Company**

There has neither been any non-compliance of any legal provision of applicable law, nor any penalty, stricture imposed by the stock exchanges or SEBI or any other authorities, on any matters related to capital market during the last three years.

**Insider Trading**

In compliance with the SEBI regulation on prevention of insider trading, the Company has instituted a comprehensive code of conduct for its management, staff and relevant business associates. The code lays down guidelines, which advises them on procedures to be followed and disclosures to be made, while dealing with shares of the Company and cautioning them on consequences of non-compliances.

**CEO & CFO CERTIFICATION**

Certificate from Mr. Pawan Munjal, Managing Director & CEO and Mr. Ravi Sud, Sr. Vice President & CFO in terms of Clause 49(V) of the Listing Agreement for the year under review was placed with the Board of Directors of the Company in their meeting held on May 11, 2007. A copy of the same certificate on the financial statements for the financial year ended March 31, 2007 and the Code of Conduct is given along with this Report.

**APPOINTMENT / RE-APPOINTMENT OF DIRECTORS**

Mr. Om Prakash Munjal, Mr. Narinder Nath Vohra, Mr. Anajit Singh and Dr. Pritam Singh, Directors of the Company, retire by rotation at the ensuing Annual General Meeting (AGM) and being eligible, offer themselves for re-appointment.

Further, since the last AGM, Mr. Yutaka Kudo and Mr. Takashi Nagai were appointed as Additional Directors on the Board of the Company and have been proposed to be appointed as Directors by the shareholders at the ensuing AGM of the Company.

The brief resume of the said Directors proposed to be appointed and

re-appointed is given alongwith the Notice of the AGM being sent along with the Annual Report.

## MEANS OF COMMUNICATION

The Company has regularly sent, both by post as well as by fax (within 15 minutes of closure of the board meeting) the annual audited as well as quarterly un-audited results to both the Stock exchanges, BSE & NSE, after they are taken on record by the Board of Directors.

The Company's half yearly results (period ended September 30, 2006) and annual results (year ended March 31, 2007) have been published in English, Hindi and other regional language newspapers (viz. The Times of India, The Economic Times, Nav Bharat Times, Hindustan Times, Financial Express, Business Standard, Indian Express, Loksatta, Bombay Samachar, The Hindu, Deccan Chronicle, Anand Bazar Patrika and The Telegraph).

Results for the quarter ended June 30, 2006 and December 31, 2006 have been published in English and Hindi newspapers (viz. The Economic Times, The Times of India, Hindustan Times, Business

Standard and Nav Bharat Times). Further, the Company's quarterly, half yearly and annual results have also been sent to the individual shareholders of the Company. Results for each quarter, half year and annual results for the year ended March 31, 2007 have been displayed on the Company's website [www.herohonda.com](http://www.herohonda.com). The website also displays official news releases and distribution schedule, as required by Clause 35 of the Listing Agreement.

Moreover, pursuant to Clause 51 of the Listing Agreement, financial information like annual and quarterly financial statements and shareholding pattern etc. are available on the SEBI web-site [www.sebiedifair.nic.in](http://www.sebiedifair.nic.in). The Company Secretary being the Compliance Officer ensures the correctness and authenticity of the information filed in the said website.

During the year ended March 31, 2007, various presentations were made to analysts and Institutional investors. Further, the **Management Discussion & Analysis (MDA)**, throwing light on the operations, business performance, financial and other important aspects of the Company's functioning forms a part of this Annual Report.



## GENERAL BODY MEETINGS

### Details of Annual General Meeting (AGM)

Location, date and time of general meetings held during the last three years and Ordinary and Special resolutions passed thereat are given in Table 7.

Pursuant to the provisions of Section 192A of the Companies Act, 1956, there was no matter as required to be dealt by the Company to be passed through postal ballot.

TABLE 7: DETAILS OF AGM'S

Year	Location	Date	Time	Summary of Resolutions Passed
2005-06	Air Force Auditorium, New Delhi	September 14, 2006	04:30 p.m	<b>Ordinary Resolutions</b> <ul style="list-style-type: none"> <li>• Appointment of Mr. Sunil Bharti Mittal as Director</li> <li>• Appointment of Mr. Toshiaki Nakagawa as Director and Joint Managing Director</li> <li>• Appointment of Mr. Masahiro Takedagawa as Director</li> <li>• Re-appointment of Mr. Pawan Munjal as Managing Director</li> </ul> <b>Special Resolutions</b> <ul style="list-style-type: none"> <li>• Re-appointment of Mr. Brijmohan Lall Munjal as Chairman and Director in the Whole-time employment of the company</li> <li>• Keeping of Registers/Returns/ Documents at the Registered Office</li> </ul>
2004-05	Air Force Auditorium, New Delhi	August 23, 2005	10:00 a.m.	<b>Ordinary Resolutions</b> <ul style="list-style-type: none"> <li>• Appointment of Mr. Analjit Singh as Director</li> <li>• Appointment of Dr. Pritam Singh as Director</li> <li>• Appointment of Ms. Shobhana Bhartia as Director</li> <li>• Appointment of Dr. Vijay Laxman Kelkar as Director</li> <li>• Appointment of Mr. Miki Yamamoto as Director and Joint Managing Director</li> <li>• Appointment of Mr. Takao Eguchi as Director and Whole-time Director</li> <li>• Appointment of Mr. Motohide Sudo as Director</li> </ul>
2003-04	Air Force Auditorium, New Delhi	August 17, 2004	11:00 a.m.	<b>Special Resolutions</b> <ul style="list-style-type: none"> <li>• Keeping of Registers/Returns/ Documents at a place other than the Registered Office</li> <li>• Amendment in Articles of Association: Article 44, 96 and 106(20) modified</li> </ul>

## GENERAL SHAREHOLDER'S INFORMATION

### Annual General Meeting

Date:	July 24, 2007
Day:	Tuesday
Time:	10:30 A.M.
Venue:	Airforce Auditorium, Subroto Park Dhaura Kuan, New Delhi 110010

### Financial Calendar

Financial year: April 1 to March 31

#### For the year ended March 31, 2007 results were announced on:

First quarter ended June 30, 2006	July 11, 2006
Second quarter and half year ended September 30, 2006	October 25, 2006
Third quarter ended December 31, 2006	January 31, 2007
Fourth quarter and year ended March 31, 2007	May 11, 2007

#### For the year ending March 31, 2008, results will be announced on: (Tentative and subject to change)

First quarter ending June 30, 2007	July, 2007 (2 <sup>nd</sup> week)
Second quarter and half year ending September 30, 2007	October, 2007 (2 <sup>nd</sup> week)
Third quarter ending December 31, 2007	January, 2008 (2 <sup>nd</sup> week)
Fourth quarter and year ending March 31, 2008	April, 2008 (2 <sup>nd</sup> week)

### Book Closure

The dates of book closure are from Thursday, July 12, 2007 to Tuesday, July 24, 2007 (both days inclusive).

### Dividend Payment

The Board of Directors has recommended 850 per cent dividend for the financial year 2006-07. The dividend, if approved by shareholders at the ensuring AGM shall be paid to those shareholders whose names appear on the Register of Members as on Tuesday, July 24, 2007. In respect of shares held in electronic form, the dividend will be payable to the beneficial owners of the shares as on the closing hours of business on Wednesday, July 11, 2007 as per the details furnished by the Depositories for this purpose.

### Listing on Stock Exchanges

As on March 31, 2007, the securities of the Company are listed on the following exchanges:

1. Bombay Stock Exchange Limited (BSE) based at Phiroz Jeejeebhoy Towers, 25<sup>th</sup> Dalal Street, Mumbai - 400 001; &
2. National Stock Exchange of India Limited, (NSE) based at Exchange Plaza, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra East, Mumbai - 400 051.

Further, the Company had applied for delisting of its shares from The Calcutta Stock Exchange Association Limited (CSE) and complied with the procedural formalities for the same immediately after the approval received from the shareholders, but the final approval of the same is still awaited. However, the in-principal approval has been received after the grant of approval by the De-listing Committee of the CSE.

### Listing Fees

Listing fees for the year 2007-08 has been paid to the stock exchanges, wherein the equity shares of the Company are listed (i.e. BSE & NSE) within the stipulated time.

## Stock Codes

The Company's stock codes at the primary exchanges are:

	Stock Code	Reuters Code	Bloomberg
BSE	500182	HROH.BO	HH IN
NSE	HEROHONDA	HROH.NS	NHH IN

## Stock Market Data

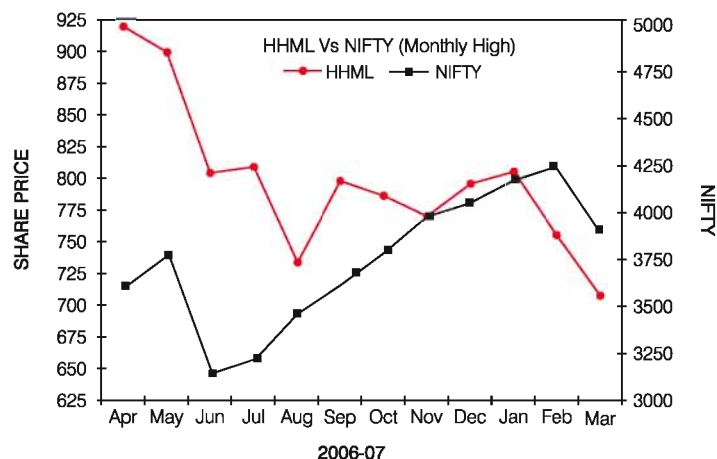
The Company's market capitalisation is included in the computation of the BSE-Sensex, BSE -100, BSE- 200, BSE- 500, S&P CNX Nifty and S&P CNX 500. Monthly high and low quotations as well as the volume of shares traded at the National Stock Exchange of India Limited (NSE) and Bombay Stock Exchange Limited (BSE) is given in Table 8.

TABLE 8: SHARE PRICE DATA FOR 2006-07 (IN RS.) (SHARES OF RS. 2 PAID UP VALUE)

National Stock Exchange of India Limited, Mumbai (NSE)

Month	Total Volume	High	Date	Volume on that date	Low	Date	Volume on that date
	Quantity	(In Rs.)		Quantity	(In Rs.)		Quantity
April' 06	9702279	915.90	05-Apr-06	633584	792.10	28-Apr-06	265320
May' 06	8787175	898.40	17-May-06	357828	731.10	31-May-06	803889
June' 06	6965835	809.80	01-Jun-06	741788	635.00	14-Jun-06	388621
July' 06	9747356	810.20	03-Jul-06	336760	688.30	27-Jul-06	1261918
August' 06	13194017	731.00	25-Aug-06	891810	664.00	08-Aug-06	436905
September' 06	11575818	797.00	27-Sep-06	336664	684.60	07-Sep-06	674434
October' 06	9694105	789.80	03-Oct-06	441442	703.60	26-Oct-06	1385531
November' 06	10011494	770.00	02-Nov-06	252642	680.10	20-Nov-06	861623
December' 06	7663694	795.00	01-Dec-06	567205	705.25	13-Dec-06	1014090
January' 07	8270385	807.20	02-Jan-07	486923	703.00	31-Jan-07	958492
February' 07	5798026	754.00	15-Feb-07	225338	684.95	22-Feb-07	397339
March' 07	5947866	707.50	13-Mar-07	83881	611.00	05-Mar-07	588890

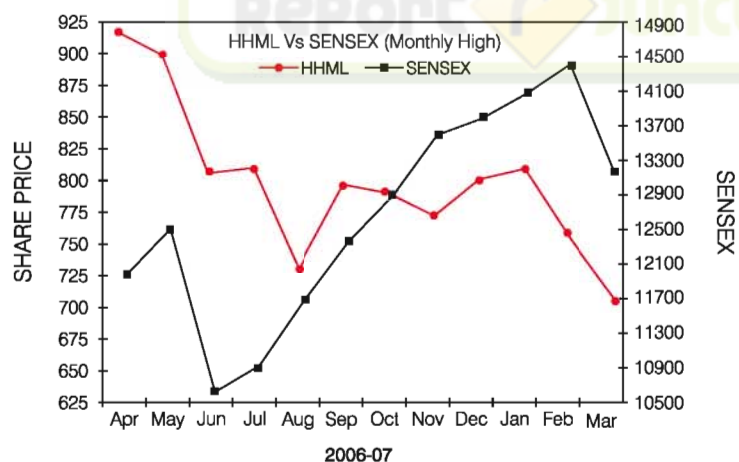
## COMPANY'S SHARE PRICE MOVEMENT VIS A VIS NIFTY



Bombay Stock Exchange Limited, Mumbai (BSE)

Month	Total Volume	High	Date	Volume on that date	Low	Date	Volume on that date
	Quantity	(In Rs.)		Quantity	(In Rs.)		Quantity
April' 06	4078759	916.00	05-Apr-06	145633	805.00	28-Apr-06	99138
May' 06	3713585	898.20	17-May-06	180108	733.00	31-May-06	243430
June' 06	2487569	806.00	30-Jun-06	109803	637.00	14-Jun-06	97804
July' 06	2541516	809.00	03-Jul-06	51830	690.00	28-Jul-06	176525
August' 06	4942709	731.00	25-Aug-06	213250	655.40	08-Aug-06	127370
September' 06	3141307	796.00	27-Sep-06	95918	696.00	07-Sep-06	87860
October' 06	2918547	789.00	03-Oct-06	76870	727.00	26-Oct-06	384590
November' 06	4022046	771.00	01-Nov-06	131638	682.20	20-Nov-06	144186
December' 06	2550134	800.00	01-Dec-06	206651	700.00	06-Dec-06	60603
January' 07	2887718	808.80	02-Jan-07	143460	704.00	31-Jan-07	228163
February' 07	1554234	753.95	19-Feb-07	38596	640.00	28-Feb-07	138034
March' 07	1144402	704.75	13-Mar-07	28836	642.00	14-Mar-07	17852

COMPANY'S SHARE PRICE MOVEMENT VIS A VIS SENSEX





### Distribution of Shareholding by Size

Table 9 lists the distribution of Shareholding by number of shares held and Shareholding Pattern in percentage (pursuant to Clause 35 of the Listing Agreement) as on March 31, 2007.

TABLE 9:

No. of shares held (Rs.2 paid up)	Folios		Shares of Rs. 2 paid up	
	Numbers	%	Numbers	%
Upto 500	51296	82.24	4647920	2.32
501 – 1000	8420	13.49	6380802	3.19
1001-5000	2137	3.42	4163917	2.08
5001-10000	198	0.31	1375956	0.68
10001-50000	175	0.28	4273908	2.14
50001 and above	147	0.23	178844997	89.56
<b>TOTAL</b>	<b>62373</b>	<b>100</b>	<b>199687500</b>	<b>100</b>

### Shareholding Pattern

Category code	Category of shareholder	Number of shareholders	Total number of shares	Number of shares held in dematerialized form	Total shareholding as a percentage of total number of shares	
					As a percentage of (A+B)	As a percentage of (A+B+C)
<b>(A)</b>	<b>Shareholding of Promoter and Promoter Group</b>					
(1)	Indian					
(a)	Individuals/Hindu Undivided Family	59	4022840	363860	2.01	2.01
(b)	Central Government/ State Government(s)	0	0	0	0	0
(c)	Bodies Corporate	10	53788840	870	26.94	26.94
(d)	Financial Institutions/ Banks	0	0	0	0.00	0.00
(e)	Any Other (Specify)	0	0	0	0.00	0.00
	Sub-Total (A)(1)	<b>69</b>	<b>57811680</b>	<b>364730</b>	<b>28.95</b>	<b>28.95</b>
(2)	Foreign					
(a)	Individuals (Non-Resident Individuals / Foreign Individuals)	0	0	0	0.00	0.00
(b)	Bodies Corporate	1	51918750	0	26.00	26.00
(c)	Institutions	0	0	0	0.00	0.00
(d)	Any Other (specify)	0	0	0	0.00	0.00
	Sub-Total (A)(2)	<b>1</b>	<b>51918750</b>	<b>0</b>	<b>26.00</b>	<b>26.00</b>
	<b>Total Shareholding of Promoter and Promoter Group (A) = (A)(1) + (A)(2)</b>	<b>70</b>	<b>109730430</b>	<b>364730</b>	<b>54.95</b>	<b>54.95</b>
<b>(B)</b>	<b>Public shareholding</b>					
(1)	Institutions					
(a)	Mutual Funds/ UTI	65	1908663	1819858	0.96	0.96
(b)	Financial Institutions/ Banks	38	787365	784775	0.39	0.39

Contd...

(c)	Central Government/ State Government(s)					
(d)	Venture Capital Funds					
(e)	Insurance Companies	18	11818703	11818703	5.92	5.92
(f)	Foreign Institutional Investors	256	55430514	55392314	27.76	27.76
(g)	Foreign Venture Capital Investors					
(h)	Any Other (Foreign Banks)	7	135734	131239	0.07	0.07
	<b>Sub-Total (B)(1)</b>	<b>384</b>	<b>70080979</b>	<b>69946889</b>	<b>35.10</b>	<b>35.10</b>
(2)	Non-institutions					
(a)	Bodies Corporate	1230	2319400	2283784	1.16	1.16
(b)	Individuals -					
	i. Individual shareholders holding nominal share capital up to Rs. 1 lakh.	59931	15990774	10787081	8.01	8.01
	ii. Individual shareholders holding nominal share capital in excess of Rs. 1 lakh.	7	1351215	346550	0.68	0.68
(c)	Any Other (NRI) & (OCB)	751	214702	214632	0.11	0.11
	Sub-Total (B)(2)	61919	19876091	13632047	9.95	9.95
	Total Public Shareholding (B) = (B)(1) + (B)(2)	<b>62303</b>	<b>89957070</b>	<b>83578936</b>	<b>45.05</b>	<b>45.05</b>
	<b>TOTAL (A) + (B)</b>	<b>62373</b>	<b>199687500</b>	<b>83943666</b>	<b>100</b>	<b>100</b>
(C)	Shares held by Custodians and against which Depository Receipts have been issued	0	0	0	0.00	0.00
	<b>GRAND TOTAL (A) + (B) + (C)</b>	<b>62373</b>	<b>199687500</b>	<b>83943666</b>	<b>100.00</b>	<b>100.00</b>

#### Dematerialisation of Shares and Liquidity

The shares of the Company are traded in compulsory demat segment. As on March 31, 2007, 42.03 per cent of the total share capital, which forms 93.31 per cent of the non-promoters' holding, is held in dematerialised form with National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL). During the year under review, share certificates involving 713835 shares of Rs. 2 each, were dematerialised by the shareholders. These represent 0.36 percent of the total share capital of the Company. The joint venture partners hold 52 per cent of the total share capital, which is in physical form.

#### Outstanding GDR'S/ADR'S/Warrants or any Convertible Instruments, Conversion Date and Likely Impact on Equity

Not Applicable

#### Details of Public Funding Obtained in the Last Three Years

The Company has not obtained any public funding in the last three years.

#### Registrar & Transfer Agents

All work related to Share Registry, both in physical form and electronic form, is handled by the Company's Registrar and Transfer Agents. Company has appointed M/s. Karvy Computershare Private Limited as the Registrar & Share Transfer Agent of the Company in place of M/s. MCS Limited w.e.f. June 1, 2007.

#### Karvy Computershare Private Limited

(Unit: Hero Honda Motors Limited)  
Plot No. 17-24, Vithalrao Nagar,  
Madhapur, Hyderabad-500081,  
Tel: 040-23420815-820, Fax: 040-23420814  
E-mail: mailmanager@karvy.com

#### Share Transfer System

The Share Transfers (pertaining to shares in physical mode) are approved by the Committee of Directors/Share Transfer Committee which meets regularly on a weekly/fortnightly basis. The total number of shares transferred during the financial year 2006-07 were 137826, which were completed in the prescribed period. Shares under objection were returned within two weeks time.

Confirmations in respect of the requests for dematerialisation of shares are being sent to the respective depositories i.e. NSDL & CDSL expeditiously.

#### Investors' Services

The Company has Board Level Committees dealing with investor

issues, which have been discussed in detail earlier. Table 10 lists the complaints/requests/reminders received and redressed during 2006-07. During the financial year, the Company has attended to most of the investors' grievances/correspondence within a period of 10-15 days from the date of receipt of the same.

TABLE 10: COMPLAINTS/REQUESTS RECEIVED AND REDRESSED DURING 2006-07

SL. NO.	NATURE OF COMPLAINTS/REQUESTS	RECEIVED	CLEARED	PENDING
1.	Non receipt of shares sent for transfer	154	160	0
2.	Request for issue of duplicate shares	94	97	0
3.	Non receipt of dividend warrant	136	139	0
4.	Change of address	375	380	0
5.	Mandate cases/bank description	56	56	0
6.	Miscellaneous (Shares)	332	359	0

#### COMPANY'S REGISTERED OFFICE ADDRESS

34, Community Centre,  
Basant Lok, Vasant Vihar,  
New Delhi 110 057  
Tel: 011-2614 2451, 2614 4121  
Fax: 011-2615 3913  
Website: www.herohonda.com

#### PLANT LOCATIONS

##### Dharuhera Plant

69 K.M. Stone,  
Delhi-Jaipur Highway,  
Dharuhera, Distt. Rewari,  
Haryana 122 100  
Tel: 01274-264 012-015  
Fax: 01274-267 024

##### Gurgaon Plant

37 K.M. Stone,  
Delhi-Jaipur Highway,  
Sector 33, Gurgaon,  
Haryana 122 001  
Tel: 0124-2372 123-134  
Fax: 0124-2373 141-142

#### NON-MANDATORY REQUIREMENTS

The Company has not adopted the non-mandatory requirements as specified in Annexure - 3 of the Listing Agreement except clause (b) relating to Remuneration Committee.

##### Investors' Correspondence may be addressed to

Mr. Ilam C. Kamboj, G. M. Legal & Company Secretary,  
e-mail: ickamboj@herohonda.com or  
to the Registrar and Transfer Agents i.e. Karvy Computershare Private Limited.

##### Queries Relating to the Financial Statements of the Company may be addressed to

Mr. Ravi Sud, Sr. Vice President & CFO,  
e-mail: ravisud@herohonda.com

For and on behalf of the Board

Brijmohan Lall  
Chairman

May 31, 2007  
New Delhi

## CERTIFICATE

### TO THE MEMBERS OF HERO HONDA MOTORS LIMITED

We have examined the compliance of conditions of Corporate Governance by Hero Honda Motors Limited for the year ended March 31, 2007, as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the abovementioned Listing Agreement.

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For A. F. Ferguson & Co.  
Chartered Accountants



A.K. Mahindra  
Partner  
(Membership No. 10296)

Place: New Delhi  
Date: May 31, 2007

## CERTIFICATE OF CEO & CFO

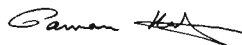
### CERTIFICATION BY CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER OF THE COMPANY

We, Pawan Munjal, Managing Director and Chief Executive Officer (CEO) and Ravi Sud, Sr.Vice President and Chief Financial Officer (CFO) of Hero Honda Motors Limited, to the best of our knowledge and belief certify that:

1. We have reviewed the Balance Sheet and Profit and Loss Account of the Company for the year ended March 31, 2007 and all its schedule and notes on accounts, as well as the Cash Flow Statement.
2. To the best of our knowledge and information:
  - a. these statements do not contain any materially untrue statement or omit to state a material fact or contains statement that might be misleading;
  - b. these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
3. We also certify, that based on our knowledge and the information provided to us, there are no transactions entered into by the Company, which are fraudulent, illegal or violate the company's code of conduct.
4. We are responsible for establishing and maintaining internal controls and procedures for the Company, and we have evaluated the effectiveness of the Company's internal controls and procedures.
5. We have disclosed, based on our most recent evaluation, wherever applicable, to the company's auditors and through them to the audit committee of the Company's Board of Directors:
  - a. Significant changes in internal control during the year;
  - b. Any fraud, which we have become aware of and that involves Management or other employees who have a significant role in the Company's internal control systems;
  - c. Significant changes in accounting policies during the year.

We further declare that all board members and senior management have affirmed compliance with the code of conduct for the year 2006-07.

For Hero Honda Motors Limited



Pawan Munjal  
Managing Director & CEO

For Hero Honda Motors Limited



Ravi Sud  
Sr. Vice President & CFO

New Delhi,  
May 11, 2007

## ANNEXURE II TO DIRECTORS' REPORT

Information Under Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended March 31, 2007 ;

### I. CONSERVATION OF ENERGY

Techno-economic viability of few energy saving proposals are being carried out and few proposals have been already implemented.

#### a) Energy conservation measures taken and their impact.

Power consumption has been reduced with the following measures taken during the year under review:

- Replacement of CT Fan Blades FRP Blades
- Reduction in usage of Cooling Towers from 2 to 1 thereby reducing the Pumps required to run the Cooling towers from 6 to 4
- Replacement of tube lights with CFL Bulbs in ignored areas of the plant with effective reflector, maintaining same lux level.
- Erection and Commissioning of RO Plant
- Installation of Automatic Power Factor Control Panel for controlling and regulating the Load on Generators
- Automation of Boilers
- Automatic Blowdown
- Oxygen Trimming
- Lighting Automation

Power generation cost has been reduced with Waste Heat Recovery System installation done to utilize the waste heat from the MAN DG sets.

Fuel consumption has been reduced with use of Effimax System.

#### b) Additional Investments and Proposals being implemented for reduction of consumption of energy.

For the reduction in power consumption the following measures has been envisaged and planned for.

- Study scope of vapour Absorption System
- Waste Heat Recovery Boiler
- Installation of Waste Heat Recovery Unit at HHD as well

For the reduction in power generation cost, installation of more and more HPS DG Sets has been envisaged.

- For effective resource utilization it has been decided to Study of transmission and distribution losses to reduce the same and installation of vapor absorption chiller machine for air conditioning.

Note: The additional investment cannot be precisely ascertained, and is part of the Repairs and Maintenance; consumables expenditure and investments in fixed assets.

#### c) Impact of measures at a) and b) for reduction of energy consumption and consequent impact on the cost of production of goods.

It is difficult to quantify the impact of individual projects on the Cost of production of goods. However, the electricity consumption at Dharuhera plant has shown a miniscule increase from 27.22 KWH/Vehicle in 2005-06 to 27.23 KWH/Vehicle 2006-07 and consumption at Gurgaon plant increased from 31.4 KWH/Vehicle in 2005-06 to 32.73 KWH/Vehicle 2006-07 respectively.

The impact of above mentioned initiatives (and also initiatives in past) is clearly visible as decreasing trends of energy consumption despite increasing loads over last couple of years. The slight upward fluctuation is due to increase of fuel price.

### FORM-A

Form for Disclosure of Particulars with respect to Conservation of Energy, total energy consumption and energy consumption per unit of production.

For Dharuhera Plant	Current year	Previous year
<b>A. Power and fuel consumption per unit of production</b>		
Product Unit (Motorcycle)	1598921	1351502
1. Electricity		
a) Purchased		
Units(KWH)	8451452	9430853
Amount (Rs.)	34,295,811	36,770,256
Rate/unit (Rs.)	4.06	3.90
b) Own generation		
Through diesel generator Unit		
Self (KWH)	34847158	27333195
Hired (KWH)	Nil	Nil
Unit per-ltr. of Diesel Oil (Cost/unit)		
Self(KWH/Ltr.)	3.98	4.02
Hired (KWH/Ltr.)	Nil	Nil
2. Furnace Oil, LDO, HPS* etc.		
Quantity (K.Ltrs)	1824.905	1398.473
Total amount (Rs.)	3,02,48,767	2,33,38,880



Average Rate/Ltr. (Rs.)	16.58	16.69
<b>B. Consumption per unit of production</b>		
1) Electricity (KWH/Motorcycle)	27.08	27.20
2) Furnace Oil, LDO, HPS etc (Ltr./Motorcycle)	1.14	1.03
*used for the purpose of Boiler used for production of motorcycle.		

For Gurgaon Plant	Current year	Previous year
<b>A. Power and fuel consumption per unit of production</b>		
Product unit (Two-Wheelers)	1740975	1654984
1. Electricity		
a) Purchased Unit (KWH)	Nil	Nil
Amount (Rs.)	Nil	Nil
Rate/unit	Nil	Nil
b) Own generation		
Through diesel generator unit		
Self (KWH)	56830801	52050277
Hired (KWH)	Nil	Nil
Unit per-ltr.of Diesel Oil Cost/unit		
Self (KWH/Ltr.)	4.11	3.94
Hired (KWH/Ltr.)	Nil	Nil
2. Furnace Oil, LDO, HPS etc.**		
Quantity (K.Ltrs)	481.893	869.424
Total amount (Rs.)	1,10,05,176	2,13,57,659
Average Rate/Ltr. (Rs.)	22.84	24.57
<b>B. Consumption per unit of production</b>		
1) Electricity (KWH/Motorcycle)	32.64	31.45
2) Furnace Oil. LDO, HPS etc. (Ltr./Motorcycle)	0.28	0.53

\*\*used for the purpose of Hot water generator used for production of motorcycle.

## II. PARTICULARS AS PER FORM B

### (A) Research & Development(R&D)

#### 1. Specific areas in which R & D carried out by the Company

- New Model Technology Absorption carried out by the company
- Indigenisation of CKD Parts
- Multi Source Approval
- Meeting Legislative Norms
- Active Participation in deciding the needs of future Automobile Norms in India

#### 2. Benefits derived as a result of the above R & D activities

- Glamour FI (125 cc - 4 Stroke), CBZ X-treme (150 cc - 4 Stroke), CD - Dawn/CD - Deluxe (KSTG), Glamour Cast Wheel, Achiever Cast Wheel, Karizma under Cowl, Passion Plus Limited Edition, Pleasure in Black Colour were launched.
- Multi source Components have been added to existing models
- New sources added for existing models
- During the year under review 5 more items have been localised.
- Compliance made to the Regulations

#### 3. Future plan of action

- Launching of new Models;
- Indigenisation plan
- Participation at different Forums for formation of 2-W Regulations in India & GTRs.
- Compliance Plan for Future Regulations :-

VIN / Statutory Inscription, TA & COP for Safety Critical Components, Wheel Rims, Anti Theft Devices and EMC

#### 4. Expenditure on R & D

(Rupees in Crores)

	Year Ended March 31, 2007	Year Ended March 31, 2006
i) Capital	8.11	10.71
ii) Recurring	17.85	14.68
iii) Total R & D expenditure as a percentage of sale (as per P & LA/c)	0.26%	0.29%

### B) Technology Absorption, Adaptation And Innovation

#### 1 Efforts in brief, made India technology absorption, adaptation and innovation

- More parts development Approval in India

#### 2. Benefits derived as a result of the above efforts e.g. product improvement, cost reduction, product development, import

#### substitution

- New Model Development to increase market share
- Reduction in development time
- Supply capacities and quality of bought out parts (BOP) increased with Multi Source Development to support the increasing production
- Indigenisation - To meet Cost Challenge.
- Compliance to Latest Regulations.

### III. FOREIGN EXCHANGE EARNINGS AND OUTGO

#### A) Export Activities / Initiatives To Increase Exports / Development Of New Export Markets / Export Plans

##### Export 2006-07

During the year under review, the Company achieved 5 per cent growth in Export sale. However due to the unfavourable political environment in Srilanka, Bangladesh & Nepal, Company could not get the expected volumes in these three countries. CD dawn, Glamour and CBZ have been launched successfully in the Export Markets. The response on all the new launches have been extremely positive. Your Company has participated in "The Auto Show India" organised by SIAM in Srilanka. In the year 2006-07, an exploratory visit was made to Nigeria and Kenya to assess the market potential. Workshop standardisation done in Nepal and training centres at Srilanka & Bangladesh made operational. Further the 3S concept was initiated in Bangladesh.

##### Export Plan For 2007-08

Your Company has been continuously striving for further growth in Business in existing export market. However with launch of new models, like CD Dawn, CD Deluxe, Glamour, CBZ and few others in pipeline, a healthy growth in all export markets is expected in the next year. We also plan to explore new channels for growth in Business through participation in international tender etc.

#### B) Earnings & Outgo

Foreign exchange earnings during the period was Rs. 263.5 crores as compared to Rs. 253.61 crores in the previous year, representing a growth of 4 per cent.

Foreign Exchange Outgo on account of Royalty, Technical Guidance Fee, Technical Know-how fee, Export Commission, Travel and other accounts, Advertisement and Publicity was Rs. 371.61 crores, as compared to Rs. 299.33 crores in the previous year, representing a growth of 24 per cent.

Besides outgo on account of Dividend was Rs. 103.84 crores as compared to Rs. 103.84 crores in the previous year.

There was an outgo of Rs. 283.07 crores on account of import of components, spare parts, raw materials and capital goods. In the previous year, the outgo was Rs. 280.19 crores.

## ANNEXURE III TO DIRECTORS' REPORT

## INFORMATION AS PER SECTION 217(2A) OF THE COMPANIES ACT, 1956, READ WITH THE COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED MARCH 31, 2007

Sl. No.	Name of Employee	Age (Yrs.)	Designation (Nature of Duties)	Gross Rem. Received (Rs.)	Qualification	Experience (Years)	Shareholding %	Date of Employment	Last employment
1	Munjai, Brijmohan Lal	84	Chairman [Overall management of the affairs of the company]	156,200,247	Privately educated	63	-	03.08.1991	Chairman - Hero Cycles Ltd.
2	Munjai, Pawan	53	Managing Director & CEO [Day to day management of the affairs of the company]	155,418,047	B.E. (Mech.)	31	0.04	01.04.1986	Works Executive - Majestic Auto Ltd.
3	Eguchi, Takao	54	Whole-time Director [Day to day management of the affairs of the company]	126,134,997	Science, Tokyo University of Science	30	—	01.04.2003	Chief Engineer - Honda Motor Co. Ltd., Japan
4	Nakagawa, Toshiaki	56	Joint Managing Director [Day to day management of the affairs of the company]	28,799,443	B.A. (Chinese), Rikaku University	34	—	01.02.2006	Manager - Honda Motor Co. Ltd., Japan
5	Mahotra, K.K.*	60	Sr. Vice President - Materials [Responsible for overall material functions]	7,953,857	B.Sc. (Engg.)	38	—	16.08.1985	Manager (Purchase) - BST Ltd.
6	Dua, Anil*	41	Vice President - Sales & Marketing [Responsible for overall sales and marketing functions]	6,800,148	B.Tech. (Mech.), PGDM (IIMA)	18	—	19.04.2006	Regional Director (Strategy) - Gillette India Ltd.
7	Sud, Ravi	53	Sr. Vice President & CFO [Responsible for overall finance functions]	5,701,579	B.Com. (Hons.), PGDM (IIMA), FCS, AICWA	31	—	25.04.1998	General Manager (Corporate Finance) - Eicher Goodearth Ltd.
8	Sunder, P.S.*	47	General Manager- Marketing [Responsible for marketing functions]	4,242,666	M.Sc. M.B.A. - Mktng	22	—	01.10.1987	Marketing Officer - India Pistons Ltd.
9	Akhouri, N.N.	57	Sr. Vice President - HRM [Responsible for overall Human resource management functions]	4,038,064	PGDIP(Hons) - PW & R (XLR), LL.B	35	—	15.12.1999	VP-Organisational Capability - Seagram Manufacturing Ltd.
10	Mokashi, Deepak	49	General Manager- Sales [Responsible for sales functions]	3,307,675	B.Sc., M.B.A., LL.B	28	—	31.08.1985	Regional Sales Executive - Lohia Machines Ltd.
11	Singh, Harjeet	52	General Manager- R & D [Responsible for R & D functions]	3,280,827	B.Tech. (Mech.) IIT Kanpur	28	—	09.07.1988	Asstt. Manager - Escorts Ltd.
12	Dikshit, Ajay	51	General Manager- Customer Care [Responsible for cust. care functions]	3,209,487	M.A.	28	—	06.11.1992	Regional Manager - Expo Machinery Ltd.
13	Chhabra, Surender	51	General Manager - Finance [Responsible for fin. functions at HO]	3,148,857	M.Com., F.C.A.	23	—	05.08.1985	Asstt. Officer - Kanti Dewan & Co., Chartered Accountants
14	Kapoor, Rajeev	54	Vice President & Plant Head (D-Hr) [Responsible for operational functions of Plant]	2,940,861	BE (Mech.)	31	—	02.04.2001	GM(Operations) - Gillette India Ltd.
15	Kasbekar, Vikram S.*	52	Vice President & Plant Head (GGN) [Responsible for operational functions of Gurgaon Plant]	2,762,799	B.Tech(Mech.) IIT Madras	31	—	23.02.2001	GM (Operations) - TVS-Suzuki Ltd.
16	Agarwal, H.G.	47	General Manager - Finance [Responsible for fin. functions at plants]	2,753,034	B.Com., ICWA	23	—	21.01.1985	Cost Account. Officer - Kewinor India Ltd.
17	Kondal, W.S.	57	Dy. General Manager - Engine Plant (D-Hr) [Responsible for engine plant at H-H]	2,551,915	Dip Electrical	40	—	20.04.1985	Sr. Service Engineer - Jai Hind Society Ltd.
18	Kamboj, Iam C.	50	General Manager - Legal & Company Secretary [Responsible for legal & secretarial functions]	2,441,176	M.Com., PGD PW & LW, MBA, F.C.S., LL.B	24	—	27.06.1986	Asstt. Manager - Nuchem Plastic Ltd.
19	Sinha, Ajay	47	Dy. General Manager - Engine Plant (GGN) [Responsible for engine plant at H-H]	2,431,470	B.E. (Mech.)	27	—	11.05.1992	Manager - Escorts Ltd.
20	Aggarwal, A.K.	50	Dy. General Manager - Production Engineering (GGN) [Responsible for production engineering functions at H-H]	2,416,778	B.Sc. (Engg.)	27	—	19.08.1986	Sr. Engineer - D.C.M. Toyota Ltd.
21	Kapoor, Shashi*	49	General Manager- Marketing [Responsible for marketing functions]	355,814	B.Sc., M.B.A. - Mktng	22	—	23.02.2007	D.G.M. (Adv. Corporate event) - Manuli Ujoyog Ltd.

\* employed for part of the year

Notes:

- Information has been furnished on the basis of employees employed throughout the financial year, who were in receipt of remuneration for that year, which, in the aggregate, was not less than Rs. 24,00,000 (Rupees twenty four lacs) per annum and those employed for the part of the financial year, were in receipt of remuneration for any part of that year at a rate which, in the aggregate, was not less than Rs. 2,00,000 (Rupees two lacs) per month. There was no person employed either throughout the financial year or part thereof, who was holding either by himself or along with the spouse and dependent children 2% or more of the shares of the company and drawing remuneration in excess of the remuneration drawn by the Managing Director / Jt. Managing Director / Jt. Managing Director / Whole-time Director.
- Remuneration includes salary, allowances, commission, Company's contribution to Provident, Pension, Superannuation and Gratuity Funds, monetary value of other perquisites computed on the basis of the Income Tax Act and Rules, leave encashment and performance bonus, where applicable.
- All appointments are / were on contractual basis.
- Mr. Brijmohan Lal Munjai, Chairman is the brother of Mr. Om Prakash Munjai and Mr. Sanyasand Munjai (Director upto 24.10.2006). Mr. Pawan Munjai, Managing Director is the brother of Mr. Sunil Kanti Munjai (Director from 25.10.2006) and son of Mr. Brijmohan Lal Munjai. None of the other employees is a relative of any director of the company.
- Mr. Brijmohan Lal Munjai, Chairman is also approved by the Board of Directors and shareholders. The employees at Sl. Nos. 1, 2, 3 & 4 are approved by the Board of Directors and shareholders. The remuneration as per the policy / rules of the Company.
- Following employees, who ceased to be Whole-time Directors of the company, were paid commission for the year 2005-06 under the accounts for the year 2005-06 were audited and approved by the shareholders in the Annual General Meeting, as under:  
a. Mr. Vikram Singh  
b. Mr. Shishir Nayyar  
Whole-time Director (upto 30.06.2005)  
Rs. 12,31,45,833  
Rs. 2,42,24,384

## FREQUENTLY ASKED QUESTIONS (FAQ's)

**Q. Despite a growth in the revenues, the profits of the company have declined. Comments**

A. Total turnover during the financial year 2006-07 increased 13.7 per cent to a record high of Rs.10,089.81 crores. However the gains of the topline growth got diluted due to sharp rise in the input costs. While the Company had revised twice the prices of two wheelers in the last fiscal, the intense competition and the possibility of the input prices stabilising at a lower levels in long term restrained the company from passing the full increase to the end consumer.

Further, Company incurred significant expenditure on advertising to support the new model launches and sponsoring the ICC cricket world cup. Such expenditure plays an important role in brand building equipping the Company to meet competition better.

**Q. What is your outlook on two wheeler industry?**

A. The outlook for two wheelers and motorcycles in particular remains positive on the back of healthy GDP growth and rising income levels. Two wheeler penetration levels in the country are still low and provide tremendous potential. Motorcycles now constitute around 83% of the total two wheelers sold, we expect the two wheelers industry to register a double digit growth with motorcycle segment growing at a slightly higher rate. However, the increase in the interest rates and consequent postponement of purchases could be a cause of concern for sales happening through financing in the short term.

**Q. Last year Company had launched several new models, please appraise us the performance of these models and plans for new launches during the current year ?**

A. During the year 2006-07 the Company launched eight new models/variants spread across all segments. These new models have been well accepted by the market and are giving rich dividend through improved market share.

There are several new models and upgrades of existing models in the pipeline; these would be launched over the current year. The Company launched a new model - Splendor – NXG in the month of May 2007.

**Q. With the hardening of interest rates, would the demand for motorcycles be affected?**

A. Today a sizeable segment of the sales happen through financing. Hence, any increase in the interest cost would adversely affect the sales growth. However, the low levels of two wheeler penetrations, rising disposable income and a favourable age demography of

the Indian population would help in increasing the market size. The Company has tie-ups with various preferred financiers to enable its customers to get finance at attractive terms mitigating the adverse interest cost movement.

**Q. What is the Company strategy on exploring new markets for exports?**

A. The penetration level of two wheelers in India is still very low and it is perceived that domestic demand would continue to be robust in the foreseeable future. Therefore, the Company would focus primarily on fulfilment of the huge domestic demand. With the start of new manufacturing facility at Haridwar, the Company would enhance focus on export segment as well and explore new markets in co-operation with Honda.

**Q. What is the planned CAPEX for the coming years, and means of financing the same?**

A. To meet the growing demand of two-wheelers, a new manufacturing facility is under construction at Haridwar. This would initially be setup with a capacity of 500,000 units and would involve cash out flow of Rs 415 crores, of which Rs 215 crores have already been expended during 2006-07.

The new plant would be using a state of art technology with a significant scalability option at relatively low investment. We plan to increase the capacities to 1,000,000 and subsequently to 1,500,000 over the coming years. .

In addition to the new plant, the company would be investing approx Rs 170 crores in the existing plants at Dharuhera and Gurgaon plant.

Given a healthy free cash flow, all the capex expenditure would be made out of internal accruals of the company.

**Q. What is the management's outlook on the operating margin in the period ahead?**

A. The previous year had witnessed an incessant increase in the prices of all major raw materials leading to erosion in the operating margins. While there is some respite in prices of a few metals, partly contributed by strengthening of Indian Rupee, the volatility in the input cost is likely to continue. In the years to come the fiscal benefits of the Haridwar plant are like to have a favourable effect on the operating margins.

The Company would remain focused on bringing about cost rationalisations, harnessing economies of scale not only for itself but also for its vendors and bring best value for money offerings to the consumer.

**Q. How has the entry of Honda Motorcycles and Scooters India (HMSI) and other new players changed the market landscape?**

**A.** The last few years has witnessed severe competition in the two-wheeler market, which got further intensified with the entry of new players in the market.

Hero Honda has harmonised its marketing strategies to meet these dynamic market developments, the fruits of which are evident in improvement of market share over the last few months.

Going forward, the Company would further consolidate its distribution network along with new model launches to meet competition.

**Q. What is management views on the dividend payout?**

**A.** The management has consistently followed a policy of high dividend payout taking into account the cash generating capacities, expected capital needs and strategic business considerations. Following the same, the board has recommended

a dividend of 850 per cent maintaining a payout ratio of 46.3 per cent vis-à-vis 46.9 per cent in previous year.

**Q. What steps have the company has taken to improve corporate governance?**

**A.** The company is committed to benchmark itself with global standards in all areas including corporate governance. The company's annual report contains substantial disclosures on the Board of Directors, audit committee, remuneration committee, shareholders' grievance committee, financial and stock performance, etc. In addition, an attempt has been made to benchmark governance with the guidelines recommended by the SEBI Committee on Corporate Governance (SEBI is the apex authority for regulating capital markets in India)

Financial results are published as per the latest Accounting Standards prescribed by the Institute of Chartered Accountants of India. The results are published in a transparent manner and there has been no non-compliance of any legal provision of applicable laws.

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# FINANCIALS



Auditors' Report

Annexure to Auditors' Report

Balance Sheet, Profit & Loss Account and  
Cash Flow Statement

Schedules

US GAAP

## AUDITOR'S REPORT

### TO THE MEMBERS OF HERO HONDA MOTORS LIMITED

1. We have audited the attached balance sheet of Hero Honda Motors Limited, as at March 31, 2007 and also the profit and loss account and the cash flow statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
  - iii) the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - iv) in our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement, dealt with by this report, comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
  - v) on the basis of written representations received from the Directors and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on March 31, 2007 from being appointed as a Director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
  - vi) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
    - a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2007;
    - b) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
    - c) in the case of Cash Flow Statement, of the cash flows for the year ended on that date.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
  - i) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - ii) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

**FOR A.F. FERGUSON & CO.**  
Chartered Accountants

**A. K. Mahindra**  
Partner  
(Membership number: 10296)

Place: New Delhi  
Date: May 11, 2007

**ANNEXURE REFERRED TO IN PARAGRAPH '3' OF THE AUDITOR'S REPORT TO THE MEMBERS OF HERO HONDA MOTORS LIMITED ON THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2007.**

- (i) (a) The Company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) As explained to us, the Company has a system of physical verification, which is designed to cover all fixed assets over a period of three years and in accordance therewith, physical verification of a major portion of fixed assets of the Company was carried out during the current year. In our opinion, the frequency of physical verification is reasonable having regard to the size of the Company and the nature of its fixed assets.
- (c) In our opinion and according to the information and explanations given to us, a substantial part of the fixed assets has not been disposed off by the Company during the year.
- (ii) (a) During the year, the inventories have been physically verified by the management. In our opinion, the frequency of verification is reasonable.
- (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) On the basis of our examination of the records of inventories, we are of the opinion that the Company is maintaining proper records of inventories. The discrepancies noticed on physical verification of inventories as compared to book records were not material and have been properly dealt with in the books of account.
- (iii) (a) According to the information and explanations given to us, the Company has, during the year, not granted any loan, secured or unsecured to Companies, firms and other parties covered in the register maintained under Section 301 of the Companies Act, 1956, other than unsecured loans aggregating Rs. 233 crores granted to a Company covered in the register maintained under Section 301 of the Companies Act, 1956. The maximum amount due during the year was Rs. 82 crores and the year end balance of loans granted was Rs. 50 crores.
- (b) In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions of the loans granted by the Company, as referred to in para 4(iii)(a) of the Companies (Auditor's Report) Order, 2003 (hereinafter referred to as the Order) above, are, prima- facie, not prejudicial to the interest of the Company.
- (c) According to the information and explanations given to us, the parties, to whom the loans have been granted by the Company, as referred to in paragraph 4(iii)(a) above, have been regular in repayment of the principal amount as stipulated and have been regular in payment of interest.
- (d) According to the information and explanations given to us, there are no overdue amounts in respect of the loans granted as referred to in paragraph 4(iii) (a) above and interest thereon.
- (e) According to the information and explanations given to us, the Company has, during the year, not taken any loans, secured or unsecured, from companies, firms and other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, paragraphs 4(iii) (f) and (g) of the Order are not applicable.
- (iv) According to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchases of inventories, fixed assets and with regard to the sale of goods. There are no sales of services during the year. Further, on the basis of our examination and according to the information and explanations given to us, we have neither come across nor have been informed of any instance of major weaknesses in the aforesaid internal control system.
- (v) (a) According to the information and explanations given to us, we are of the opinion that during the year, the particulars of the contracts/arrangements referred to in Section 301 of the Companies Act, 1956, have been entered in the register required to be maintained under that Section.
- (b) According to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956, and exceeding the value of rupees five lacs in respect of any party during the year, are of a specialised nature for which there are no alternate sources of supply to enable a comparison of the prices paid.
- (vi) The Company has not accepted any deposits from the public.
- (vii) According to the information and explanations given to us, the Company has an adequate internal audit system commensurate with its size and nature of its business.
- (viii) We have broadly reviewed the books of account maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956 and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records with a view to determining whether they are accurate or complete.
- (ix) (a) According to the information and explanations given to us and

the records of the Company examined by us, the Company has been regular in depositing undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, customs duty, excise duty, cess, value added tax, Haryana local area development tax and other material statutory dues applicable to it with the appropriate authorities. We are informed that there are no undisputed statutory dues as at the year end, outstanding for a period of more than six

months from the date they became payable.

- (b) According to the information and explanations given to us and the records of the Company examined by us, there are no disputed dues in respect of sales tax, wealth tax, customs duty and cess, which have not been deposited. The following are the particulars of excise duty, service tax and income tax dues not deposited/deposited under protest by the Company on account of disputes as at March 31, 2007:-

Nature of the Statute	Nature of dues	Amount* (Rs in crores)	Amount paid under protest (Rs in crores)	Period to which the amount relate	Forum where pending
Central Excise Laws	Service tax	11.16	-	2002-03, 2003-04, and 2004-05	CESTAT
		0.03	-	2005-06	Commissioner (Appeals)
Income-tax Act	Income-Tax	8.54	8.54	2000-01	Income Tax Appellate Tribunal
		31.94	27.08	2001-02 to 2005-06	Commissioner (Appeals)

\* Amount as per demand orders including interest and penalty wherever quantified in the order.

The following matters have been decided in favour of the Company, although the department has preferred appeals at higher levels:

Nature of the Statute	Nature of dues	Amount (Rs in crores)	Period to which the amount relate	Forum where pending
Central Excise Laws	Excise Duty	2.57	1986-87 to 1990-91	Supreme Court
Income-tax Act	Income-Tax	8.25	1986-87, 1989-90 to 1995-96	High Court
		1.32	1996-97 and 1997-98	Income Tax Appellate Tribunal

- (x) The Company does not have accumulated losses at the end of the financial year March 31, 2007. Further, the Company has not incurred any cash losses during the financial year ended March 31, 2007 and in the immediately preceeding financial year ended March 31, 2006.
- (xi) According to the records of the Company examined by us and on the basis of information and explanations given to us, the Company has not defaulted in repayment of dues to banks during the year. The Company has not taken any loans from financial institutions and has not issued debentures during the year.
- (xii) In our opinion and according to the information and explanations given to us, the Company has not granted any loans and advances during the year on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) According to the information and explanations given to us, the provisions of any special statute as specified under paragraph 4(xiii) of the Order are not applicable to the Company.
- (xiv) In our opinion and according to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
- (xv) According to the information and explanations given to us, the Company has not given any guarantees during the year for loans taken by others from banks or financial institutions.
- (xvi) In our opinion and according to the information and explanations given to us, the term loans have been applied for the purposes for which they were obtained.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that short term funds have not been used to finance long term investments.

(xviii) The Company has not made any preferential allotment of shares during the year.

(xix) The Company has not issued any debentures during the year.

(xx) The Company has not raised any money by way of public issue during the year.

(xxi) Based upon the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit for the year ended March 31, 2007.

**For A.F.FERGUSON & CO.**  
Chartered Accountants

**A. K. Mahindra**  
Partner  
(Membership No.: 10296)

Place : New Delhi  
Date: May 11, 2007

**HERO HONDA MOTORS LIMITED**  
**BALANCE SHEET AS AT MARCH 31, 2007**

(Rupees in crores)

	Schedule No.	As at March 31, 2007	As at March 31, 2006
<b>SOURCES OF FUNDS</b>			
<b>SHAREHOLDER'S FUNDS</b>			
Share capital	1	39.94	39.94
Reserves and surplus	2	2,430.12	1,969.39
		<u>2,470.06</u>	<u>2,009.33</u>
<b>LOAN FUNDS</b>			
Unsecured	3	165.17	185.78
		<u>165.17</u>	<u>185.78</u>
<b>DEFERRED TAX LIABILITIES</b>			
	8	129.58	120.10
<b>TOTAL</b>		<u>2,764.81</u>	<u>2315.21</u>
<b>APPLICATION OF FUNDS</b>			
<b>FIXED ASSETS</b>			
Gross block	4	1,800.63	1471.97
Less: Depreciation		635.10	522.60
		<u>1,165.53</u>	<u>949.37</u>
Capital work in progress		189.92	44.19
Net block		<u>1,355.45</u>	<u>993.56</u>
<b>INVESTMENTS</b>			
	5	1,973.87	2061.89
<b>DEFERRED TAX ASSETS</b>			
	8	1.38	1.32
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>			
Inventories	6	275.58	226.55
Sundry debtors		335.25	158.66
Cash and bank balances		35.78	158.72
Other current assets		3.60	3.53
Loans and advances		263.06	273.78
		<u>913.27</u>	<u>821.24</u>
<b>Less: CURRENT LIABILITIES AND PROVISIONS</b>			
Current liabilities	7	1,041.92	1072.88
Provisions		437.24	489.92
		<u>1,479.16</u>	<u>1562.80</u>
Net current assets		<u>(565.89)</u>	<u>(741.56)</u>
<b>TOTAL</b>		<u>2,764.81</u>	<u>2315.21</u>
Notes to the accounts	12		

Per our report attached  
**For A. F. FERGUSON & CO.**  
Chartered Accountants

A. K. MAHINDRA  
Partner  
(Membership no. 10296)

New Delhi  
May 11, 2007

For and on behalf of the Board of Directors

BRIJMOHAN LALL MUNJAL

Chairman

PAWAN MUNJAL

Managing Director & CEO

PRADEEP DINODIA

Director

RAVI SUD

Sr. Vice President & CFO

ILAM C. KAMBOJ

G.M. Legal & Company Secretary



## HERO HONDA MOTORS LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2007

(Rupees in crores)

	Schedule No.	Year ended March 31, 2007	Year ended March 31, 2006
<b>INCOME</b>			
Gross sales		11,542.04	10,086.16
Less: Excise duty		1,642.08	1,372.18
Net sales		9,899.96	8,713.98
Other income	9	189.85	156.28
		10,089.81	8,870.26
<b>EXPENDITURE</b>			
Manufacturing and other expenses	10	8,726.92	7,349.53
Depreciation	4	139.78	114.62
Interest (net)	11	(22.99)	(6.13)
		8,843.71	7,458.02
<b>Profit for the year before tax</b>		1,246.10	1,412.24
Provision for taxation			
- current		375.81	415.85
- deferred		9.42	17.88
- fringe benefit		2.98	7.17
<b>Profit after tax</b>		857.89	971.34
Balance of profit brought forward		1,224.05	808.10
<b>Balance available for appropriation</b>		2,081.94	1,779.44
<b>APPROPRIATIONS</b>			
Proposed dividend		339.47	399.38
Tax on dividend		57.69	56.01
Transfer to general reserve		90.00	100.00
Balance carried to balance sheet		1,594.78	1,224.05
		2,081.94	1,779.44
<b>Basic and diluted earnings per share face value Rs. 2/-each ( in rupees)</b>		42.96	48.64
Notes to the accounts	12		

Per our report attached to the balance sheet

For A. F. FERGUSON &amp; CO.

Chartered Accountants

A. K. MAHINDRA

Partner

(Membership no. 10296)

New Delhi

May 11, 2007

For and on behalf of the Board of Directors

BRIJMOHAN LALL MUNJAL

Chairman

PAWAN MUNJAL

Managing Director &amp; CEO

PRADEEP DINODIA

Director

RAVI SUD

Sr. Vice President &amp; CFO

ILAM C. KAMBOJ

G.M. Legal &amp; Company Secretary

# HERO HONDA MOTORS LIMITED

## CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2007

(Rupees in crores)

	Year ended March 31, 2007	Year ended March 31, 2006
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net profit before tax	1,246.10	1,412.24
Adjustments for:		
Add: Depreciation	139.78	114.62
Loss on fixed assets sold/discarded	13.80	0.86
Exchange differences	1.66	0.07
Loss on sale of non-trade current investments	19.62	2.27
Provision for diminution in value of investment	2.27	3.55
Interest - others and financial charges	1.61	2.92
Provision for doubtful debts	0.30	0.86
	179.04	125.15
Less: Interest received on long term non-trade investments	10.64	10.56
Interest received on loans, deposits etc.	24.60	9.05
Profit on sale of fixed assets	0.32	0.04
Dividend income		
On current Investments - Non-trade	6.53	3.62
On long-term investments - Trade	5.43	6.79
Profit on sale of non-trade investments		
On current investments	150.02	111.03
	197.54	141.09
<b>Operating profit before working capital changes</b>	<b>1,227.60</b>	<b>1,396.30</b>
Adjustments for:		
Add: Increase / (decrease) in trade payables	(30.83)	58.01
Increase in security deposits from dealers	2.34	1.80
	(28.49)	59.81
Less: Increase in trade and other receivables	144.83	73.70
Increase in inventories	49.03	22.29
	193.86	95.99
<b>Cash generated from operations</b>	<b>1,005.25</b>	<b>1,360.12</b>
Less: Direct taxes paid	380.20	424.04
<b>Net cash from operating activities</b>	<b>625.05</b>	<b>936.08</b>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>		
Sale of fixed assets	3.87	5.28
Sale of investments	13,633.86	11,256.13
Inter corporate deposits received back	211.75	195.50
Interest received on long term non-trade investments	10.57	10.56
Interest received on loans, deposits etc.	24.60	7.98
Dividend income		
On current investments-Non-trade	6.53	3.62

		(Rupees in crores)	
		Year ended March 31, 2007	Year ended March 31, 2006
On long-term investments-Trade	5.43		6.79
		13,896.61	11,485.86
Less: Purchase of fixed assets	519.03		398.94
Inter corporate deposits paid	233.00		224.25
Purchase of investments	13,417.71		11,186.16
		14,169.74	11,809.35
Net cash (used) in investing activities		(273.13)	(323.49)
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>			
Interest paid - others and financial charges	1.61		2.92
Dividend paid	396.11		396.32
Tax on dividend	56.01		56.01
Repayment of long term borrowings	20.61		15.98
Net cash (used) in financing activities		(474.34)	(471.23)
<b>D. INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)</b>			
Cash and cash equivalents at the beginning of the year		158.72	17.60
Cash and cash equivalents at the end of the year			
Cash and bank balances	35.78		158.72
Unrealised exchange loss/(gain)	0.52		0.24
		36.30	158.96

Notes to the accounts

Schedule 12

Per our report attached to the balance sheet  
For **A. F. FERGUSON & CO.**  
Chartered Accountants

A. K. MAHINDRA  
Partner  
(Membership no. 10296)

New Delhi  
May 11, 2007

For and on behalf of the Board of Directors

BRIJMOHAN LALL MUNJAL

Chairman

PAWAN MUNJAL

Managing Director &amp; CEO

PRADEEP DINODIA

Director

RAVI SUD

Sr. Vice President &amp; CFO

ILAM C. KAMBOJ

G.M. Legal &amp; Company Secretary

# HERO HONDA MOTORS LIMITED

## SCHEDULES 1 to 12 ANNEXED TO AND FORMING PART OF THE ACCOUNTS

### 1) SHARE CAPITAL

	(Rupees in crores)	
	As at March 31, 2007	As at March 31, 2006
<b>AUTHORISED</b>		
25,00,00,000 (Previous year 25,00,00,000 )		
Equity shares of Rs. 2 each	50.00	50.00
4,00,000 (Previous year 4,00,000 ) Cumulative convertible preference shares of Rs. 100 each	4.00	4.00
4,00,000 (Previous year 4,00,000 ) Cumulative redeemable preference shares of Rs. 100 each	4.00	4.00
	<u>58.00</u>	<u>58.00</u>
<b>ISSUED, SUBSCRIBED AND PAID UP</b>		
19,96,87,500* (Previous year 19,96,87,500) Equity shares of Rs. 2 each fully paid up	39.94	39.94
	<u>39.94</u>	<u>39.94</u>

\* Of the above 11,98,12,500 (Previous year 11,98,12,500) shares had been allotted as fully paid bonus shares by capitalisation of general reserve.

### 2) RESERVES AND SURPLUS

	(Rupees in crores)		
	As at March 31, 2006	Additions	As at March 31, 2007
<b>CAPITAL RESERVES</b>			
On shares forfeited (#Rs. 4250)	#	-	#
Share premium account on forfeited shares reissued(##Rs. 25500)	##	-	##
<b>REVENUE RESERVES</b>			
General reserve	745.34	90.00	835.34
Surplus, being balance in profit and loss account	1,224.05	370.73	1,594.78
	<u>1,969.39</u>	<u>460.73</u>	<u>2,430.12</u>

### 3) LOAN FUNDS

	(Rupees in crores)	
	As at March 31, 2007	As at March 31, 2006
<b>UNSECURED LOANS</b>		
Other loans and advances		
Sales tax deferment from the State Government of Haryana	165.17	185.78
(Include Rs. 34.54 crores (previous year Rs. 20.61 crores) due within one year)	<u>165.17</u>	<u>185.78</u>

## 4) FIXED ASSETS

(Rupees in crores)

	Gross Block (at cost)				Depreciation				Net Block	
	As at March 31, 2006	Additions	Deductions	As at March 31, 2007	As at March 31, 2006	For the year	On deductions	As at March 31, 2007	As at March 31, 2007	As at March 31, 2006
<b><u>Tangible assets</u></b>										
Land										
- Freehold	77.55	-	-	77.55	-	-	-	-	77.55	77.55
- Leasehold	33.34	48.46 #	-	81.80	0.18	0.34	-	0.52	81.28	33.16
Buildings	142.29	49.48	0.09	191.68	25.02	4.34	0.06	29.30	162.38	117.27
Plant and machinery	1,030.99	215.16 *	23.46	1,222.69	414.70	98.42	17.06	496.06	726.63	616.29
Furniture, fixtures and										
Office equipment	16.25	1.66	0.27	17.64	4.39	1.01	0.10	5.30	12.34	11.86
Vehicles	9.98	6.14	1.34	14.78	3.36	1.22	0.54	4.04	10.74	6.62
Computer and data processing										
machines	40.50	2.90	0.08	43.32	24.52	4.56	0.07	29.01	14.31	15.98
<b><u>Intangible assets</u></b>										
- Model fee	121.07	49.49	19.39	151.17	50.43	29.89	9.45	70.87	80.30	70.64
<b>Total</b>	<b>1,471.97</b>	<b>373.29</b>	<b>44.63</b>	<b>1,800.63</b>	<b>522.60</b>	<b>139.78</b>	<b>27.28</b>	<b>635.10</b>	<b>1,165.53</b>	
Previous year	1,104.19	395.60	27.82	1,471.97	429.71	114.62	21.73	522.60		949.37

Capital work in progress {including capital advances Rs. 38.26 crores (previous year Rs. 11.98 crores)}

189.92 44.19

**1,355.45 993.56**

Note :

\* Includes net decrease of Rs. 1.13 crores (Previous year increase of Rs. 0.84 crore) due to fluctuation in exchange rates

# Land at Haridwar pending registration in the name of the Company.

## 5) INVESTMENTS

(Rupees in crores)

	As at March 31, 2007	As at March 31, 2006
<b>CURRENT INVESTMENTS</b>		
Non-trade		
Unquoted		
In Mutual fund units:		
Debt fund		
(Units of the face value of Rs. 10 each)		
Prudential ICICI Mutual Fund		
NIL (Previous year 64328344) units in floating rate plan D -growth	-	65.75
NIL (Previous year 149571572) units in long term floating rate plan B -growth	-	154.76

5) INVESTMENTS (contd.)

(Rupees in crores)

	As at March 31, 2007	As at March 31, 2006
46644836 (Previous year 46644836) units in institutional FMP -15 months plan-series-XXV	50.00	50.00
70653402(Previous year 103812355) units in blended plan A-growth	73.25	105.00
20000000 (Previous year Nil) units in hybrid fixed maturity plan-13 months plan-Institutional-Growth	20.00	-
35000000 (Previous year Nil) units in FMP Series 35-Three Months Plan A-Retail -growth	35.00	-
96344009 (Previous year Nil) units in FMP Series 35-Three Months Plan B-Retail -growth	96.34	-
10000000(Previous year Nil) units in FMP Series 34-1 Year Plan A-Institutional -Growth	10.00	-
30000000(Previous year Nil) units in FMP Series 34-Fifteen Months Plan -Institutional -Growth	30.00	-
20000000(Previous year Nil) units in FMP Series 34-One Year Plan B Institutional Growth	20.00	-
175000000(Previous year Nil) units in equity and derivatives fund -Income optimiser-Institutional growth	175.00	-
NIL (Previous year 25000000) units in FMP -growth yearly XII institutional	-	25.00
NIL (Previous year 25000000) units in FMP 4 months growth XXVIII	-	25.00
NIL (Previous year 31573345) units in FMP-yearly growth -series XXIV	-	35.00
NIL(Previous year 20000000) units in FMP-monthly plan- cumulative- XXVII	-	20.00
<b>Birla Sunlife Mutual Fund</b>		
NIL (Previous year 17344470) units in floating rate fund long term plan growth	-	19.00
NIL (Previous year 69350000) units in fixed term plan series A -growth	-	69.35
16000000 (Previous year 16000000) units in fixed term plan series D -growth	16.00	16.00
NIL (Previous year 18687921) units in FMP series-3-annual -growth	-	20.00
NIL (Previous year 18414172) units in FMP series-2-quarterly -growth	-	20.00
7500000 (Previous year Nil) units in FTP -Quarterly-Series-5 -growth	7.50	-
15000000 (Previous year Nil) units in FTP -Half Yrly-Series-2 -growth	15.00	-
20000000 (Previous year Nil) units in FTP -INSTL-Series U-Growth	20.00	-
<b>HDFC Mutual Fund</b>		
NIL (Previous year 30000000) units in FMP 3m March 2006 (1)-Institutional plan-growth	-	30.00
20000000 (Previous year Nil) units in FMP 13 M June 2006 (1)-Institutional Plan- Growth	20.00	-
5000000 (Previous year Nil) units in FMP 90 D January 2007 (3)-Wholesale Plan- Growth	5.00	-
<b>DSP Merrill Lynch Mutual Fund</b>		
NIL (Previous year 49340412) units in floating rate fund -regular -growth	-	52.85
NIL (Previous year 25000000) units in fixed term plan - series 2-growth	-	25.00
<b>Standard Chartered Mutual Fund</b>		
5000000 (Previous year 5000000) units in Grindlays fixed maturity 7th plan -B -growth	5.00	5.00
25000000 (Previous year 25000000) units in Grindlays fixed maturity -16th plan A -growth	25.00	25.00
NIL (Previous year 10000000) units in fixed maturity - 21st plan-growth	-	10.00



## 5) INVESTMENTS (contd.)

	(Rupees in crores)	
	As at March 31, 2007	As at March 31, 2006
NIL (Previous year 107202507) units in floating rate fund long term inst. plan B -growth	-	108.80
5000000 (Previous year Nil) units in fixed maturity Plan - Yearly Series 1-growth	5.00	-
10000000 (Previous year Nil) units in fixed maturity Plan - Quarterly Series 3-growth	10.00	-
10000000 (Previous year Nil) units in fixed maturity Plan - Quarterly Series 4-growth	10.00	-
5000000 (Previous year Nil) units in fixed maturity Plan - Quarterly Series 7-growth	5.00	-
<b>Tata Mutual Fund</b>		
NIL (Previous year 25000000) units in fixed horizon fund series 3-scheme A (6 months)-growth	-	25.00
NIL (Previous year 40000000) units in fixed horizon fund series 5-scheme A-growth	-	40.00
25000000(Previous year Nil) units in fixed horizon fund series 6-scheme B-growth	25.00	-
25000000(Previous year Nil) units in fixed horizon fund series 8-scheme D-IG-growth	25.00	-
10000000(Previous year Nil) units in fixed horizon fund series 8-scheme E-growth-Inst Plan	10.00	-
15000000(Previous year Nil) units in fixed horizon fund series 8-scheme F-growth-Inst Plan	15.00	-
12000000(Previous year Nil) units in S I P FUND -Scheme I-growth	12.00	-
5000000(Previous year Nil) units in fixed horizon fund series 9-scheme E-growth-Inst Plan	5.00	-
<b>Kotak Mutual Fund</b>		
5000000 (Previous year 5000000) units in FMP series 14 -growth	5.00	5.00
NIL(Previous year 25000000) units in FMP series XVIII -growth	-	25.00
NIL (Previous year 15000000) units in FMP series 23 -growth	-	15.00
7500000 (Previous year Nil) units in FMP 3 M series 8 -growth	7.50	-
15000000 (Previous year Nil) units in FMP 15 M Series 2 -growth	15.00	-
<b>Templeton Mutual Fund</b>		
15000000 (Previous year Nil) units in Fixed Horizon Fund - 3 months plan-inst. -growth	15.00	-
<b>HSBC Mutual Fund</b>		
NIL (Previous year 50000000) units in floating rate fund - long term plan -institutional option	-	50.56
NIL (Previous year 25000000) units in fixed term series 7-growth	-	25.00
NIL (Previous year 35000000) units in fixed term series 3-growth	-	35.00
35000000 (Previous year Nil) units in fixed term series 9-growth	35.00	-
<b>ABN Amro Mutual Fund</b>		
NIL (Previous year 50000000) units in fixed term plan series 2 quarterly plan A growth	-	50.00
41703848 (Previous year Nil) units in fixed term plan series 4 quarterly plan D growth	41.71	-
15000000 (Previous year Nil) units in fixed term plan series 4 quarterly plan E growth	15.00	-
51848377 (Previous year Nil) units in fixed term plan series 4 Half Yearly plan A growth	51.85	-
20000000 (Previous year Nil) units in Dual Advantage Fund Plan A Series 1 Inst Growth	20.00	-
5000000 (Previous year Nil) units in FTPS5 14 Mths plan Inst Growth	5.00	-

5) INVESTMENTS (contd.)

(Rupees in crores)

	As at March 31, 2007	As at March 31, 2006
<b>Deutsche Mutual Fund</b>		
NIL (Previous year 10000000) units in fixed term fund-series 8-growth option	-	10.00
25000000 (Previous year Nil) units in fixed term fund-series 14-growth Plan	25.00	-
10000000 (Previous year Nil) units in fixed term fund-series 23-growth Option	10.00	-
5000000 (Previous year Nil) units in fixed term fund-series 27-growth Option	5.00	-
5000000 (Previous year Nil) units in fixed term fund-series 24-Institutional Plan-Growth Option	5.00	-
<b>JM Mutual Fund</b>		
NIL (Previous year 30000000) units in equity and derivative fund - growth option	-	30.00
<b>Escorts Mutual Fund</b>		
471885 (Previous year 1887540) units in income plan - growth	1.00	4.00
NIL (Previous year 1010446) units in floating rate fund - growth	-	1.02
<b>ING Vysya Mutual Fund</b>		
NIL (Previous year 2500000) units in fixed maturity fund series II -growth option	-	2.50
20000000 (Previous year Nil) units in fixed maturity fund series VII -growth option	20.00	-
10000000 (Previous year Nil) units in fixed maturity fund series xxi -growth option	10.00	-
5000000 (Previous year Nil) units in fixed maturity fund series xxii -growth option	5.00	-
3000000 (Previous year Nil) units in fixed maturity fund series xxiv -growth	3.00	-
<b>Reliance Mutual Fund</b>		
50000000 (Previous year 50000000) units in fixed tenor fund plan A -growth Option	50.00	50.00
10000000 (Previous year 10000000) units in fixed tenor fund plan B -growth plan	10.00	10.00
5000000 (Previous year Nil) units in fixed Horizon fund- Institutional plan C -Series I-Institutional growth plan	5.00	-
40000000 (Previous year Nil) units in fixed Horizon fund I- Annual Plan -Series III-Institutional growth plan	40.00	-
77401572 (Previous year Nil) units in fixed Horizon fund II- Quarterly Plan -Series II-Institutional growth plan	77.40	-
25000000 (Previous year Nil) units in fixed Horizon fund II- Quarterly Plan -Series I-Institutional growth plan	25.00	-
25000000 (Previous year Nil) units in fixed Horizon fund III- Annual Plan Series IV-Institutional Growth Plan	25.00	-
NIL (Previous year 30000000) units in fixed maturity fund series II annual plan 1- growth option	-	30.00
NIL (Previous year 16474329) units in short term fund growth plan	-	20.00
NIL (Previous year 106165242) units in fixed maturity fund -qtrly plan-III-series II-growth option	-	106.17
NIL (Previous year 58326952) units in income fund-retail plan-growth plan-Bonus Option	-	60.00

## 5) INVESTMENTS (contd.)

	(Rupees in crores)	
	As at March 31, 2007	As at March 31, 2006
NIL (Previous year 4518498) units in medium term fund -retail plan -growth plan - bonus option	-	4.57
<b>Principal Mutual Fund</b>		
47963255 (Previous Year Nil) units in income fund growth plan	50.00	-
25000000 (Previous year Nil) units in fixed maturity plan (FMP-31) Series III Instt. growth plan-Nov 06	25.00	-
(Units of the face value of Rs. 1000 each)		
<b>DSP Merrill Lynch Mutual Fund</b>		
NIL (Previous year 250000) units in fixed term plan - series 1B-growth	-	25.00
NIL (Previous year 100000) units in fixed term plan - series 1C-growth	-	10.00
154224 (Previous year Nil) units in fixed term plan - series 1 H-growth Institutional	15.42	-
203789 (Previous year Nil) units in fixed term plan - series1 I-growth Institutional	20.38	-
Repurchase Price Rs. 1425.42 crores (Previous year Rs. 1560.34 crores)	1383.35	1,515.33
<b>Monthly Income Plan</b>		
(Units of the face value of Rs. 10 each)		
<b>HDFC Mutual Fund</b>		
NIL (Previous year 25000000) units in multiple yield fund plan 2005 -growth	-	25.00
NIL (Previous year 45034091) units in short term - growth	-	50.00
<b>DSP Merrill Lynch Mutual Fund</b>		
NIL (Previous year 12038001) units in savings plus moderate -growth	-	14.61
Repurchase Price Rs. Nil (Previous year Rs. 99.44 crores)	-	89.61
<b>Gilt Fund</b>		
(Units of the face value of Rs. 10 each)		
<b>Tata Mutual Fund</b>		
NIL (Previous year 42178010) units in Gilt securities fund -bonus	-	45.01
Repurchase Price Rs. Nil (Previous year Rs. 46.76 crores)	-	45.01
<b>Fund of Funds</b>		
(Units of the face value of Rs. 10 each)		
<b>Optimix Mutual Fund</b>		
25000000 (Previous year Nil) units of active debt multi -manager FOF scheme- growth	25.00	-
25000000 (Previous year Nil) units of dynamic multi- manager FOF scheme -Series 2-growth	25.00	-

5) INVESTMENTS (contd.)

(Rupees in crores)

	As at March 31, 2007	As at March 31, 2006
<b>ABN AMRO Mutual Fund</b>		
15000000 (Previous year Nil) units in Multi Manager Fund Series 2A Growth	15.00	-
5000000 (Previous year Nil) units in Multi Manager Fund Series 3- Growth	5.00	-
	70.00	-
Less: Provision for Diminution in Value	(1.00)	-
<b>Repurchase Price Rs. 69.00 crores (Previous year Rs. Nil)</b>	<b>69.00</b>	<b>-</b>
<b>Equity fund</b>		
(Units of the face value of Rs. 10 each)		
<b>Escorts Mutual Fund</b>		
14734210 (Previous year 17027061) units in opportunities fund -dividend	19.12	22.00
3414634 (previous year NIL) in units of high yeild equity plan-Dividend	3.50	-
<b>Prudential ICICI Mutual Fund</b>		
NIL (Previous year 10000000) units in services industry fund - dividend	-	10.00
<b>ING Vysya Mutual Fund</b>		
NIL (Previous year 5000000) units in L.I.O.N fund - dividend payout	-	5.00
1000000 (Previous year Nil) units in CUB fund - dividend Option	1.00	-
<b>Reliance Mutual Fund</b>		
NIL (Previous year 10000000) units in equity fund	-	10.00
<b>Standard Chartered Mutual Fund</b>		
NIL (Previous year 5000000) units in imperial equity fund - dividend	-	5.00
<b>Principal Mutual Fund</b>		
NIL (Previous year 5000000) units in infrastructure and services industries fund - div payout	-	5.00
<b>HSBC Mutual Fund</b>		
NIL (Previous year 10000000) units in advantage India fund -dividend	-	10.00
<b>Birla Sunlife Mutual Fund</b>		
NIL (Previous year 5000000) units in infrastructure fund -dividend payout	-	5.00
NIL (Previous year 5000000) units in top 100 fund - dividend payout	-	5.00

## 5) INVESTMENTS (contd.)

	(Rupees in crores)	
	As at March 31, 2007	As at March 31, 2006
<b>DSP Merrill Lynch Mutual Fund</b>		
5000000 (Previous year Nil) units in DSP Merrill Lynch Small and Mid Cap -Reg Dividend	5.00	-
Repurchase Price Rs. 28.71 crores (Previous year Rs. 88.11 crores)	28.62	77.00
<b>Liquid fund</b>		
(Units of the face value of Rs. 10 each)		
<b>Prudential ICICI Mutual Fund</b>		
NIL (Previous year 77442553) units in sweep cash option -cumulative	-	77.75
83112217 (Previous year Nil) units in Institutional Liquid Plan -Super Institutional Growth	91.15	-
<b>Birla Sunlife Mutual Fund</b>		
4210065 (Previous year NIL) units in cash plus- institutional premium-growth	5.00	-
<b>ABN Amro Mutual Fund</b>		
NIL (Previous year 48294903) units in cash fund - institutional growth	-	52.26
<b>Escorts Mutual Fund</b>		
NIL (Previous year 992989) units in liquid plan - growth	-	1.00
<b>HSBC Mutual Fund</b>		
8492857 (Previous year 9110787) units in cash fund - institutional plus - growth	10.00	10.00
<b>Reliance Mutual Fund</b>		
116324079 (Previous year Nil) units in Liquidity Fund- growth Option	130.55	-
<b>Deutsche Mutual Fund</b>		
NIL (Previous year 5000000) units in money plus fund-growth option	-	5.00
(Units of the face value of Rs. 1000 each)		
<b>DSP Merrill Lynch Liquid Fund</b>		
320146 (Previous year Nil) units in liquidity Fund Instt. - growth	35.00	-
Repurchase Price Rs. 272.09 crores (Previous year Rs.146.29 crores)	271.70	146.01

5) INVESTMENTS (contd.)

(Rupees in crores)

	As at March 31, 2007	As at March 31, 2006
Non-trade		
Unquoted		
Investments under Portfolio Management Services #		
Prudential ICICI Asset Management Company		
Debt Fund		
Prudential ICICI Mutual Fund (units of the face value of Rs.10 each)		
7642650 (Previous year Nil) units in FMP Series 34-3 Months C	7.64	-
Liquid Fund		
Prudential ICICI Mutual Fund (units of the face value of Rs.10 each)		
2202315 (Previous year NIL) units in liquid plan Super institutional growth Option	2.38	-
Repurchase Price Rs. 10.23 crores (Previous year Rs. Nil)	10.02	-
IIM -Optimix Portfolios- Capital Enhancer		
Liquid Fund		
Principal Mutual Fund (Units of Face Value of Rs 10 each)		
180485 (Previous year nil) units in Principal Cash Management Fund Liquid Option Growth	0.25	-
Debt Fund		
Reliance Mutual Fund - Debt Fund (units of the face value of Rs.10 each)		
25506476 (Previous year Nil) units in Fixed Horizon Fund -2 Qly PLN Series -5	25.51	-
Repurchase Price Rs. 25.92 crores (Previous year Rs. Nil)	25.76	-
Reliance Portfolio Management		
Bonds		
Reliance Blended Debt Plus -500000 Bonds of Citicorp Finance (India) Ltd		
NCDS Series 163 of Rs 100.00 each	5.00	-
Repurchase Price Rs. 5.10 crores (Previous year Rs. Nil)	5.00	-
Escorts Securities Limited		
Debt Fund		
Escorts Mutual Fund (units of the face value of Rs.10 each)		
29747 (Previous year Nil) units in Floating Rate Fund -Growth Option	0.03	-
Liquid Fund		
Templeton Mutual Fund- (units of the face value of Rs.1 each)		
121800000 (Previous year Nil) units in India Money Market Account -Dividend Plan	12.18	-
Repurchase Price Rs. 12.22 crores (Previous year Rs. Nil)	12.21	-



## 5) INVESTMENTS (contd.)

	(Rupees in crores)	
	As at March 31, 2007	As at March 31, 2006
<b>Equity Shares Quoted</b>		
20000 (Previous year Nil) equity shares of Rs. 1.00 each fully paid up of Ashok Leyland	0.09	-
40000 (Previous year Nil) equity shares of Rs. 10 each fully paid up of IFCI Ltd	0.12	-
1250 (Previous year Nil) equity shares of Rs. 2 each fully paid up of IVRCL Infrastructure & Project Ltd	0.05	-
1500 (Previous year Nil) equity shares of Rs. 10 each fully paid up of IPCL	0.04	-
4000 (Previous year Nil) equity shares of Rs. 10 each fully paid up of Syndicate Bank	0.03	-
<b>Market Price Rs. 0.33 crore (Previous year Rs. Nil)</b>	<b>0.33</b>	<b>-</b>

# Investments have been made under the Discretionary Portfolio Management Agreement entered into between the Company and Prudential ICICI Asset Management Company Limited, IIM-Optimix Portfolios -Capital Enhancer, Escorts Securities Ltd, Reliance Portfolio Management (Portfolio Managers) and are being held in the name of the Portfolio Manager as envisaged in the aforesaid Agreement.

**Non-trade  
In Equity Shares:  
Quoted**

NIL (Previous year 203785) equity shares of Rs. 10 each fully paid up of Infrastructure Development Finance Company Limited	-	0.69
NIL (Previous year 360092 ) equity shares of Rs. 10 each fully paid up of Bank of Baroda	-	8.28
NIL (Previous year 27794) equity shares of Rs. 10 each fully paid up of GVK Power and Infrastructure Limited	-	0.86
NIL (Previous year 261208) equity shares of Rs. 10 each fully paid up of Bannari Amman Spinning Mills Limited	-	3.53
NIL (Previous year 239800) equity shares of Rs. 10 each fully paid up of ICICI Bank Limited	-	12.59
6181 (Previous year Nil) equity shares of Rs. 10 each fully paid up of Parsvnath Developers Limited	0.19	-
152202 (Previous year Nil) equity shares of Rs. 10 each fully paid up of Idea Cellular Ltd	1.14	-
55200 (Previous year Nil) equity shares of Rs. 2 each fully paid up of HCL Tech Ltd	1.81	-
<b>Market value Rs. 3.21 crores (Previous year Rs. 27.14 crores)</b>	<b>3.14</b>	<b>25.95</b>

**LONG TERM INVESTMENTS**

**Non-trade  
Quoted**

**In Bonds**

15918732 (Previous year 15614760) 6.75% Tax free US64 bonds of Rs.100 each	165.47	162.44
60903 (Previous year 60903) 6.60% Tax free ARS bonds of Rs.100 each	0.63	0.63

5) INVESTMENTS (contd.)

		(Rupees in crores)	
		As at March 31, 2007	As at March 31, 2006
	166.10		163.07
Less: Provision for permanent diminution in value	(4.82)		(3.55)
Market value Rs.154.32 crores (Previous year Rs. 159.40 crores)		161.28	159.52
Maturity value Rs 159.80 crores (Previous year Rs. 156.76 crores)			
<b>Trade</b>			
<b>Unquoted</b>			
<b>In Equity Shares:</b>			
2715000 (Previous year 2715000) equity shares of Rs. 10 each fully paid up of			
Hero Honda Finlease Limited			
		3.46	3.46
		1,973.87	2,061.89

The following investments were purchased and sold during the year

				(Rupees in crores)	
		Purchase		Sold	
	Units	Amount	Units	Amount	
<b>Mutual Funds</b>					
<b>Debt Funds</b>					
Units of the face value of Rs.10 each	3946795637	4,094.24	4055917390	4,227.02	
Units of the face value of Rs.1000 each	863174	87.20	855160	86.40	
<b>Fund of Funds</b>					
Units of the face value of Rs.10 each	170000000	170.00	100000000	100.00	
<b>Monthly Income Plans</b>					
Units of the face value of Rs.10 each	64896378	105.00	146968470	194.61	
<b>Equity Fund</b>					
Units of the face value of Rs.10 each	38307556	39.21	86185772	87.59	
<b>Liquid Fund</b>					
Units of the face value of Rs.10 each	5113085286	5,446.49	5041787299	5,355.80	
Units of the face value of Rs.1000 each	30411541	3,183.42	30091395	3,148.42	
<b>Gilt Fund</b>					
Units of the face value of Rs.10 each	1447330	2.09	43625340	47.10	

## 5) INVESTMENTS (contd.)

(Rupees in crores)

	Purchase		Sold	
	Units	Amount	Units	Amount
<b>Equity Shares</b>				
<b>Shares of Face value of Rs 10 each</b>				
Reliance Petroleum Limited	347248	2.08	347248	2.08
Tech Mahindra Limited	5586	0.20	5586	0.20
Oil and Natural Gas Corporation Limited	130650	10.05	130650	10.05
Parsvnath Developers Limited	18681	0.56	12500	0.38
Sobha Developers Limited	4124	0.26	4124	0.26
Power Finance Corporation Limited	122089	1.04	122089	1.04
Idea Cellular Limited	152202	1.14		
Infrastructure Development Finance Company Limited		-	203785	0.69
ICICI Bank Limited		-	239800	12.59
Bannari Amman Spinning Mills Limited		-	261208	3.53
Bank of Baroda		-	360092	8.28
GVK Power and Infrastructure Limited		-	27794	0.86
<b>Shares of Face value of Rs 5 each</b>				
Infosys Technologies Limited	253000	46.50	253000	46.50
Dr. Reddy Laboratories Limited	2400	0.34	2400	0.34
<b>Shares of Face value of Rs 2 each</b>				
Satyam Computer Services Limited	407896	17.19	407896	17.19
Larsen & Tubro Limited	200000	26.72	200000	26.72
HCL Technologies Limited	110400	3.63	55200	1.81
<b>Shares of Face value of Rs 1 each</b>				
Tata Consultancy Services Limited	122618	14.26	122618	14.26
<b>Bonds</b>				
6.75% Tax Free US 64 bonds of the face value of Rs.100 each	303972	3.03	-	-
		<u>13,254.65</u>		<u>13,393.72</u>
The following investments were purchased and sold during the year under portfolio management scheme				
				At Cost
<b>Mutual Funds</b>				
<b>Liquid Funds</b>				
Units of the face value of Rs.10 each	22925840	28.33	20543039	25.70
Units of the face value of Rs.1 each	121800000	12.18		
<b>Debt Funds</b>				
Units of the face value of Rs.10 each	86278835	95.62	53099961	62.44

## 5) INVESTMENTS (contd.)


(Rupees in crores)

	Purchase		Sold	
	Units	Amount	Units	Amount
Bonds of Citicorp Finance (India) Ltd NCDS Series 163 of Rs 100 each	500000	5.00		
<b>Equity Shares</b>				
<b>Shares of Face value of Rs 10 each</b>				
Century Textiles & Industries Limited	1000	0.06	1000	0.06
Industrial Finance Corporation of India Limited	307750	0.89	267750	0.77
Indian Petrochemicals Corporation Limited	1500	0.04		
Jai Prakash Hydro Power Limited	37500	0.12	37500	0.12
Nagarjuna Fertilisers and Chemicals Limited	532000	0.93	532000	0.93
National Thermal Power Corporation Limited	162500	2.40	162500	2.40
Reliance Capital Limited	1100	0.07	1100	0.07
Reliance Industries Limited	16960	2.15	16960	2.15
SRF Limited	43500	0.95	43500	0.95
State Bank of India	6000	0.81	6000	0.81
Syndicate Bank	4000	0.03		
Tata Steel Limited	675	0.03	675	0.03
ACC Limited	18435	2.05	18435	2.05
Bank of India	4074	0.08	4074	0.08
Cairn India Limited	35000	0.45	35000	0.45
IndusInd Bank Limited	5000	0.05	5000	0.05
India Cements Limited	46400	1.03	46400	1.03
Infrastructure Development Finance Co. Limited	64900	0.51	64900	0.51
Jaiprakash Associates Limited	9900	0.71	9900	0.71
LIC Housing Finance Limited	1976	0.03	1976	0.03
Mphasis Limited	33600	0.96	33600	0.96
Mahanagar Telephone Nigam Limited	4000	0.06	4000	0.06
NIIT Technologies Limited	1000	0.04	1000	0.04
Parsvnath Developers Limited	35000	1.96	35000	1.96
Tata Motors Limited	6634	0.54	6634	0.54
Tata Teleservices (Maharashtra) Limited	240350	0.55	240350	0.55
<b>Shares of Face value of Rs 5 each</b>				
Reliance Communications Limited	1400	0.07	1400	0.07
<b>Shares of Face value of Rs 4 each</b>				
New Delhi Television Limited	6600	0.23	6600	0.23
<b>Shares of Face value of Rs 2 each</b>				
Gujarat Ambuja Cement Limited	22682	0.28	22682	0.28
IVRCL Infrastructure Project Limited	23250	0.92	22000	0.87
Nagarjuna Construction Co. Limited	14000	0.30	14000	0.30
Siemens Limited	5625	0.66	5625	0.66

## 5) INVESTMENTS (contd.)

(Rupees in crores)				
	Purchase		Sold	
	Units	Amount	Units	Amount
Shares of Face value of Rs 1 each				
Ashok Leyland Limited	258750	1.20	238750	1.11
Hindustan Construction Co. Limited	43400	0.63	43400	0.63
Indian Hotels Co. Limited	7000	0.11	7000	0.11
Triveni Engg & Indus Limited	7700	0.03	7700	0.03
		<u>163.06</u>		<u>109.74</u>

(Rupees in crores)				
	As at March 31, 2007		As at March 31, 2006	
	Book value	Market value	Book value	Market value
Aggregate value of				
Quoted investments -Long Term	161.28	154.32	159.52	159.40
Quoted investments-Current	3.47	3.53	25.95	27.14
Unquoted investments	1,809.12	-	1,876.42	-
	<u>1,973.87</u>		<u>2,061.89</u>	

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## 6) CURRENT ASSETS, LOANS AND ADVANCES

(Rupees in crores)

	As at March 31, 2007	As at March 31, 2006
<b>CURRENT ASSETS</b>		
<b>INVENTORIES #</b>		
Stores and spares (at cost or under)	19.30	17.07
Loose tools (at cost or under)	12.95	10.13
Raw materials and components *	167.59	126.81
Finished goods *		
Two wheelers	44.31	31.43
Spare parts	13.46	27.16
Work in progress *	17.97	13.95
	<u>275.58</u>	<u>226.55</u>
* Lower of cost and net realisable value		
# Includes goods in transit Rs. 17.78 crores (Previous year Rs 6.81 crores)		
<b>SUNDRY DEBTORS</b>		
Debts outstanding for a period exceeding six months		
Secured - considered good	0.49	0.40
Unsecured - considered good	1.49	0.17
- considered doubtful	2.37	2.07
Other debts		
Secured - considered good	14.20	10.85
Unsecured - considered good	319.07	147.24
	<u>337.62</u>	<u>160.73</u>
Less: Provision for doubtful debts	2.37	2.07
	<u>335.25</u>	<u>158.66</u>
<b>CASH AND BANK BALANCES</b>		
Cash in hand	0.21	0.20
Cheques in hand	0.25	0.45
With scheduled banks:		
On current accounts	34.76	22.53
On deposit accounts	0.51	135.49
With post office (pledged with excise authorities)		
On deposit account	0.01	0.01
On savings account	0.04	0.04
	<u>35.78</u>	<u>158.72</u>
<b>OTHER CURRENT ASSETS</b>		
Interest accrued on investments	3.60	3.53
	<u>3.60</u>	<u>3.53</u>
<b>LOANS AND ADVANCES</b>		
(Unsecured and considered good)		
Advances recoverable in cash or in kind or for value to be received	165.05	213.50
Inter corporate deposits	50.00	28.75
Income-tax recoverable	43.52	28.37
Income-tax deducted at source	4.16	2.94
Deposits with excise authorities on current account	0.33	0.22
	<u>263.06</u>	<u>273.78</u>



## 7) CURRENT LIABILITIES AND PROVISIONS

(Rupees in crores)

	As at March 31, 2007	As at March 31, 2006
<b>CURRENT LIABILITIES (Refer note -13)</b>		
Acceptances	-	7.81
Sundry creditors:		
Total outstanding dues of small scale industrial undertakings #	3.75	4.04
Total outstanding dues of creditors other than small scale industrial undertakings	551.07	634.42
Other liabilities ##	461.44	403.29
Security deposits from dealers	25.66	23.32
	<u>1,041.92</u>	<u>1072.88</u>
<b>PROVISIONS</b>		
Proposed dividend	339.47	399.38
Provision for taxation less payments	3.85	4.03
Provision for tax on dividend	57.69	56.01
Warranties	36.23	30.50
	<u>437.24</u>	<u>489.92</u>

# The Company does not owe any sum which is outstanding for more than 30 days

## Other liabilities do not include any amount outstanding as on March 31, 2007 which are required to be credited to the Investor Education and Protection Fund (Fund)

## 8) DEFERRED TAX ASSETS AND LIABILITIES

(Rupees in crores)

	As at March 31, 2007	As at March 31, 2006
<b>DEFERRED TAX ASSETS</b>		
Accrued expenses deductible on payment	0.24	0.23
Others	1.14	1.09
	<u>1.38</u>	<u>1.32</u>
<b>DEFERRED TAX LIABILITIES</b>		
Accumulated depreciation	129.58	120.10
	<u>129.58</u>	<u>120.10</u>

## 9) OTHER INCOME

(Rupees in crores)

	Year ended March 31, 2007	Year ended March 31, 2006
Dividend income		
On current investments - Non trade	6.53	3.62
On long term investments - Trade	5.43	6.79
	<u>11.96</u>	<u>10.41</u>
Interest on long term non trade investments	10.64	10.56
Profit on sale of non trade current investments*	130.40	108.76
Profit on sale of fixed assets	0.32	0.04
Miscellaneous income	36.53	26.51
	<u>189.85</u>	<u>156.28</u>

\* After adjusting loss on sale of current investments aggregating Rs. 19.62 crores (previous year Rs. 2.27 crores)

## 10) MANUFACTURING AND OTHER EXPENSES

(Rupees in crores)

	Year ended March 31, 2007	Year ended March 31, 2006
<b>MATERIALS CONSUMED</b>		
Purchase of spares etc. for re-sale (Refer note- 12)	58.56	342.93
Consumption of raw materials and components	7335.83	5911.52
Less: - Sale of components to ancillaries on cost to cost basis	178.28	156.89
	7157.55	5754.63
Less: - Cash discount	28.21	19.28
	7129.34	5735.35
Add: Opening stock		
Two wheelers	31.43	16.44
Spare parts	27.16	28.57
Work in progress	13.95	12.56
	72.54	57.57
Less: Excise duty on opening stock	5.78	3.06
Net opening stock	66.76	54.51
Less: Closing stock		
Two wheelers	44.31	31.43
Spare parts	13.46	27.16
Work in progress	17.97	13.95
	75.74	72.54
Less: Excise duty on closing stock	11.22	5.78
Net closing stock	64.52	66.76
Net consumption	7190.14	6066.03
Less: Scrap sales	11.43	11.01
	7178.71	6055.02
<b>OTHER EXPENSES #</b>		
Payments to and provisions for employees:		
Salaries, wages, bonus, gratuity and leave encashment benefit	327.74	289.66
Contribution to provident and other funds	12.21	11.46
Staff welfare expenses	13.86	19.49
Expenses for manufacturing, administration and selling:		
Stores and tools consumed	67.76	64.50
Power and fuel	52.45	46.65
Rent	3.36	2.96
Repairs and maintenance:		
Plant and machinery	25.80	25.98
Buildings	2.96	2.59
Others	0.64	0.49

Insurance	11.40	8.55
Exchange fluctuation	0.70	0.46
Rates and taxes	13.50	14.14
Packing, forwarding, freight etc.	250.06	198.87
Royalty	254.37	212.41
Advertisement and publicity	241.43	191.83
Commission:		
Export	12.59	12.19
Others	3.02	1.57
	15.61	13.76
Donations	1.37	0.91
Lease rent	12.15	12.66
Provision for doubtful debts	0.30	0.86
Other expenses	224.47	171.87
Provision for diminution in value of investments:		
Current non trade investment	1.00	-
Long term non trade investment	1.27	3.55
	2.27	3.55
Loss on fixed assets sold/discarded	13.80	0.86
	8,726.92	7,349.53

# Research and development expenses of Rs. 17.85 crores (Previous year Rs. 14.68 crores) have been charged to respective heads

#### 11) INTEREST (NET)

(Rupees in crores)

	Year ended March 31, 2007	Year ended March 31, 2006
Interest - others and financial charges	1.61	2.92
Less: Interest received on loans, deposits, etc. *	24.60	9.05
	(22.99)	(6.13)

\* Income tax deducted at source Rs. 1.03 crores (Previous year Rs. 0.56 crore)

## 12) NOTES TO THE ACCOUNTS

### 1. Significant Accounting Policies

#### i) Accounting convention

The financial statements are prepared under the historical cost convention, in accordance with applicable accounting standards and relevant presentational requirements of the Companies Act, 1956 .

#### ii) Fixed / Intangible assets and depreciation / amortisation

Fixed assets are stated at cost less accumulated depreciation. Cost of acquisition is inclusive of freight, duties , taxes and other incidental expenses and in the case of plant and machinery, interest on loan taken for the acquisition of assets upto the date of commissioning of assets. Roll over charges on forward exchange contracts and loss or gain on translation of foreign currency liabilities for acquisition of fixed assets from a country outside India are added to or deducted from the cost of assets.

Depreciation is charged on a pro-rata basis at the straight line method rates prescribed in schedule XIV to the Companies Act, 1956 except where the historical cost of a depreciable asset has undergone a change due to increase or decrease in foreign currency liability on account of exchange fluctuations. The depreciation on the revised unamortised depreciable amount is provided prospectively over the residual useful life of the asset. Assets costing upto Rs. 5000 each are fully depreciated in the year of purchase.

Intangible assets, comprising of expenditure on model fee etc, incurred upto March 31, 2003 and on or after April 1, 2003 are amortized on a straight line method over a period of three and five years respectively.

Leasehold land has been amortised over the period of lease.

#### iii) Investments

Current investments are stated at lower of cost and fair value. Long term investments are stated at cost less provision for permanent diminution, if any.

#### iv) Inventories

Stores and spares and loose tools are stated at cost or under.

Raw materials and components, finished goods and work in progress are valued at cost or net realisable value, whichever is lower.

The bases of determining cost for various categories of inventories are as follows:-

Stores and spares, loose tools, raw materials and components	- Weighted average cost
Materials in transit	- Actual cost
Work in progress and finished goods	- Material cost plus appropriate share of labour, manufacturing overheads and excise duty.

#### v) Retirement benefits

The Company has various schemes of retirement benefits such as provident fund, superannuation fund and gratuity fund, duly recognised by the income-tax authorities and leave encashment benefit fund. The funds are administered through trustees and the contributions are charged against revenue every year.

#### vi) Foreign currency transactions

Exchange differences are dealt with as follows:-

Transactions in foreign currency are recorded at the exchange rate prevailing at the time of the transaction. In case of liabilities relating to the acquisition of fixed assets from a country outside India, the loss or gain on translation (at the rates prevailing at the year end or at the forward rates where forward cover has been taken) and roll over charges in respect of forward cover is included in the carrying amount of the related fixed assets and loans.

Current assets (other than inventories) and current liabilities, (other than relating to fixed assets) are restated at the rate prevailing at the year end. In respect of forward contracts, the forward premium or discount is recognised as income or expense over the life of contract in the profit and loss account and the exchange difference between the exchange rate prevailing at the year end and the date of the inception of the forward exchange contract is recognised as income or expense in the profit and loss account.

**vii) Sales**

Sale of goods is recognised at the point of despatch of finished goods to the customers. Gross sales are inclusive of applicable excise duty and freight but are exclusive of sales tax.

In order to comply with the Revised Accounting Standard Interpretation (ASI-14) issued by the Institute of Chartered Accountants of India, gross sales (including excise duty) and net sales (excluding excise duty) is disclosed in the profit and loss account including the movement of excise duty on opening and closing stock.

**viii) Scrap**

Scrap is accounted for on sale basis.

**ix) Warranty claims**

Warranty costs are provided on accrual basis on the total sales of two wheelers during the year, which are based on past experience of claims.

**x) Research and development expenses**

Research and development expenditure of a revenue nature is expensed out under the respective heads of account in the year in which it is incurred.

**xi) Taxation**

The provision for taxation is ascertained on the basis of assessable profits computed in accordance with the provisions of the Income-tax Act, 1961.

Deferred tax is recognised, subject to the consideration of prudence, on timing differences, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

**xii) Provisions and contingent liabilities**

Provision involving substantial degree of estimation in measurement are recognized when there is a permanent obligation as a result of past events and it is probable that there will be an out flow of resources. Contingent liabilities are not recognized but are disclosed in the notes.

**xiii) Derivatives**

Equity stock futures, equity stock options and equity index options are valued scripwise, at mark to market margin basis. In respect of open positions, provision is made for anticipated loss. Premium in respect of equity stock/index options is charged off to profit and loss account at the expiry of the option.

**2. Contingent Liabilities :**

(Rs. in crores)

	This year	Previous year
l) In respect of income-tax cases pending at various stages of appeal with the authorities	20.24	6.07

The above matters are subject to legal proceedings in the ordinary course of business. The legal proceeding when ultimately concluded will not, in the opinion of management, have a material effect on the result of operation or the financial position of the Company.

3. Estimated amount of contracts remaining to be executed on capital account and not provided for Rs. 145.35 crores (Previous year Rs. 67.41 crores).
4. The Company has also entered into operating lease agreements for motor vehicles, dies and data processing machines. These lease arrangements are cancellable in nature and range between two to four years. The aggregate lease rentals under these arrangements amounting to Rs. 12.15 crores (Previous year Rs. 8.50 crores) have been charged under "Lease rentals" in Schedule 10.
5. As the Company's business activity falls within a single primary business segment viz. "Two wheelers and its parts" and is a single geographical segment, the disclosure requirements of Accounting Standard (AS-17) "Segment Reporting", issued by The Institute of Chartered Accountants of India are not applicable.
6. Two wheeler sales are covered by a warranty period of two/three years .The details of provision for warranties are as under:

(Rs. in crores)

	This year	Previous year
Provision at the beginning of the year	30.50	24.75
Additional provision made during the year	30.01	24.57
Amount used during the year	24.28	18.82
Provision at the end of the year	36.23	30.50

7. Related party disclosures under Accounting Standard 18

- a) Enterprises in which the Company has control  
Hero Honda Finance Limited

- b) Parties in respect of which the Company is a joint venture  
Honda Motor Co. Limited, Japan  
Hero Cycles Limited  
Bhadurchand Investments Private Limited  
Hero Investments Private Limited

- c) Key management personnel

Mr. Brijmohan Lall Munjal	- Chairman
Mr. Pawan Munjal	- Managing Director & CEO
Mr. Toshiaki Nakagawa	- Joint Managing Director (wef February 1, 2006)
Mr. Takao Eguchi	- Whole-time Director (upto March 31, 2007)
Mr. Miki Yamamoto	- Joint Managing Director (upto January 31, 2006)
Mr. Shinichi Nakayama	- Whole-time Director (upto May 30, 2005)

- d) Enterprises over which key management personnel and their relatives are able to exercise significant influence:-

Brijmohan Lall Associates, A.G. Industries Private Limited, Hero Corporate Services Limited, Highway Industries Limited, Majestic Auto Limited, Munjal Auto Industries Limited, Munjal Showa Limited, Rockman Industries Limited, Sunbeam Auto Limited, Satyam Auto Components Limited, Hero Motors Limited, Shivam Autotech Limited, Cosmic Kitchen Private Limited, Easy Bill Limited, Indian School of Business and Raman Kant Munjal Foundation.



## Transactions with related parties during the year

(a) Enterprise in which the Company has control

(Rs. in crores)

	This year	Previous year
<b>Hero Honda Finlease Limited</b>		
Lease rental expenses	12.15	12.79
Dividend received	5.43	6.79
Intercompany deposits given	233.00	220.25
Intercompany deposits repaid	208.00	195.25
Interest received on Inter company deposits	1.22	1.03
Expenses recovered	3.99	3.61
Balance outstanding at the year end		
-Receivables	50.00	25.00

(b) Parties in respect of which the Company is a joint venture.

(Rs. in crores)

	This year	Previous year
<b>Honda Motor Co. Limited, Japan</b>		
Remittance of dividend	103.84	103.84
Royalty	254.37	212.40
Export commission	12.59	12.19
Model fees	47.13	52.58
Technical guidance fee	1.38	1.82
Purchase of raw materials, components and spares	19.87	65.16
<b>Hero Cycles Limited</b>		
Dividend paid	34.61	34.61
Purchase of raw materials, components and spares	53.62	35.78
Sale of fixed assets	-	0.03
<b>Hero Investments Private Limited</b>		
Dividend paid	34.61	34.61
<b>Bhadurchand Investments Private Limited</b>		
Dividend paid	34.61	34.61
Balance outstanding at the year end		
-Receivables	-	6.18
-Payables	4.33	3.30

## (c) Key management personal

(Rs. in crores)

	This year	Previous year
<b>Managerial Remuneration</b>		
Mr. Brijmohan Lall Munjal	14.00	15.58
Mr. Pawan Munjal	13.89	15.22
Mr. Akio Kazusa (upto March 31, 2005)	-	0.03
Mr. Shinichi Nakayama (upto May 30, 2005)	-	2.48
Mr. Takao Eguchi (wef June 1, 2005)	13.32	12.55
Mr. Miki Yamamoto (upto January 31, 2006)	-	12.64
Mr. Toshiaki Nakagawa (wef February 1, 2006)	13.44	2.53
Balance outstanding at the year end		
-Payables (other than commission)	-	0.19

## (d) Enterprises over which key management personnel and their relatives are able to exercise significant influence

(Rs. in crores)

	This year	Previous year
Purchase of raw materials and components	2034.93	1684.32
Purchase of fixed assets	-	20.49
Sale of components etc	5.11	6.96
Sale of fixed assets	-	0.05
Intercompany deposits given	-	4.00
Intercompany deposits repaid	3.75	0.25
Interest received on Inter company deposits	0.01	0.03
Payment towards rent and other services	3.47	3.42
Donation	0.73	0.15
Balance outstanding as at the year end		
- Receivables	-	4.17
- Payables	145.87	148.85

Significant related party transactions included in the above are as under :-

(Rs. in crores)

	This year	Previous year
<b>Purchase of raw materials and components</b>		
Munjal Auto Industries Limited	172.91	256.48
Munjal Showa Limited	566.90	500.62
Sunbeam Auto Limited	470.50	372.80
<b>Purchase of fixed assets</b>		
A. G Industries Private Limited	-	10.42
Sunbeam Auto Limited	-	10.07
<b>Sale of components etc.</b>		
Satyam Auto Components Limited	3.03	5.86
Sunbeam Auto Limited	0.97	0.89

<b>Sale of fixed assets</b>		
Satyam Auto Components Limited	-	0.05
<b>Payment for services</b>		
Hero Corporate Services Limited	3.20	3.20
<b>Donation</b>		
Raman Kant Munjal Foundation	0.40	0.15
Indian School of Business	0.33	-

## 8. Earnings per share

	This year	Previous year
Profit after taxation as per profit and loss account (Rs. in crores)	857.89	971.34
Weighted average number of equity shares outstanding	19,96,87,500	19,96,87,500
Basic and diluted earnings per share in rupees (face value –Rs.2 per share)	42.96	48.64

9. During the year, the Company has entered into Discretionary Portfolio Management Agreements, administered through Prudential ICICI Asset Management Company Limited, IIM-Optimix Portfolios-Capital enhancer, Escorts Securities Limited, Reliance Portfolio Manager (Portfolio Managers). In terms of the said agreements, the Portfolio Managers have dealt in mutual funds, equity stock futures, equity stock options and equity index options (derivatives) on behalf of the Company. However, there are no outstanding derivative contracts as at March 31, 2007.

10. Information pursuant to clause 4 (ix) (b) of the Companies (Auditor's Report) Order, 2003 in respect of disputed dues, not deposited as at March 31, 2007, pending with various authorities

Name of the Statute	Nature of dues	Amount* (Rs in crores)	Amount paid under protest (Rs in crores)	Period to which the amount relates	Forum where pending
Central Excise Laws	Services Tax	11.16	-	2002-03, 2003-04 and 2005-06	CESTAT
		0.03	-	2005-06	Commissioner (Appeals)
Income-tax Laws	Income-Tax	8.54	8.54	2000-01	Income Tax Appellate Tribunal
		31.94	27.01	2001-02 to 2005-06	Commissioner (Appeals)

\* Amount as per demand orders including interest and penalty wherever quantified in the order.

The following matters have been decided in favour of the Company, although the department has preferred appeals at higher levels:

Name of the Statute	Nature	Amount (Rs in crores)	Period to which the amount relates (various years covering the period)	Forum where Department has preferred appeals
Central Excise Laws	Excise Duty	2.57	1986-87 to 1990-91	Supreme Court
Income-tax Laws	Income-tax	8.25	1986-87, 1989-90 to 1995-96	High Court
		1.32	1996-97, 1997-98	Income Tax Appellate Tribunal

11. The Company's borrowing facilities, comprising fund based and non fund based limits from various bankers, are secured by way of hypothecation of inventories, receivables, movable assets and other current assets.
12. During the year the Company has considered the process of packing and labelling for its spare parts as manufacturing activity based on the Central Excise Notification No 11 dated May 29, 2006. Accordingly, spare part purchases effective from June 1, 2006 have been accounted for under consumption of raw material and components, which hitherto were accounted for as 'Purchase of spare etc for resale', and after packing and labelling (manufacturing process as per excise laws) these components have been sold as spare parts.
13. The Company is in the process of identifying the micro, small and medium enterprises as defined under the "The Micro, Small, and Medium Enterprises Development Act, 2006". However, based on the information so far available with the Company i.e. upto May 10, 2007, in respect of enterprises so identified, there are no delays in the payment of dues to such enterprises.
14. The categorywise derivative instruments outstanding as at March 31 are as under:

Foreign currency forward contracts

Purpose	This Year		Previous Year	
	Currency Bought Amount (Crores)	Currency Sold Amount (Crores)	Currency Bought Amount (Crores)	Currency Sold Amount (Crores)
Hedging	-	-	EURO 0.10	USD 0.12
Hedging	-	-	USD 0.05	INR 2.24

Unhedged foreign currency exposures as at March 31 are as under:

Purpose	This Year		Previous Year	
	Amount in Foreign Currency (Crores)	Amount in Rs. (Crores)	Amount in Foreign Currency (Crores)	Amount in Rs. (Crores)
Receivables	USD 0.69	29.90	USD 0.52	23.05
Payables	JPY 3.09	1.12	JPY 4.21	1.60
	USD 0.07	2.95	USD 0.01	0.40
	EURO 0.27	15.49		

#### 15. Additional Information

##### a) Details of capacity and production:

Class of goods	Units	Licensed capacity*		Installed capacity**		Actual Production***	
		This year	Previous year	This year	Previous year	This year	Previous year
Motorised two wheelers upto 350CC engine capacity	Nos.	200000	200000	3400000	3150000	3339896	3006486

\*The Company's products are exempt from Licensing requirements under New Industrial Policy in terms of Notification no. S.O.477(E) dated 25th July,1991.

\*\* On triple shift basis, as certified by the management and relied on by the auditors being a technical matter.

\*\*\* Includes 243 (Previous year 155) two wheelers produced and capitalised during the year.

## b) Particulars in respect of opening stock, purchases, sales and closing stock for each class of goods dealt with by the Company:

Class of goods	Units	Opening stock				Purchases			
		This year		Previous year		This year		Previous year	
		Quantity	Value (Rs. in crores)	Quantity	Value (Rs. in crores)	Quantity	Value (Rs. in crores)	Quantity	Value (Rs. in crores)
Two wheelers	Nos.	11915	31.43	6335	16.44	-	-	-	-
Spares	-	*	27.16	*	28.57	*	58.56	*	342.93
			<u>58.59</u>		<u>45.01</u>		<u>58.56</u>		<u>342.93</u>

Class of goods	Units	Gross Sales				Closing Stock			
		This year		Previous year		This year		Previous year	
		Quantity	Value (Rs. in crores)	Quantity	Value (Rs. in crores)	Quantity	Value (Rs. in crores)	Quantity	Value (Rs. in crores)
Two wheelers	Nos.	3336756+	10,913.08	3000751+	9,604.17	14812	44.31	11915	31.43
Spares	-	*	628.16	*	481.63	*	13.46	*	27.16
Miscellaneous Components		*	0.80	*	0.36				
			<u>11,542.04</u>		<u>10,086.16</u>		<u>57.77</u>		<u>58.59</u>

\* It is not practicable to furnish quantitative information in view of the considerable number of items diverse in size and nature. These items in value individually account for less than 10% of the total value of the purchases, stocks and turnover of the aforesaid spares and miscellaneous components.

+ Excluding 243 (Previous year 155) two wheelers capitalised.

## c) Raw materials and components consumed:

Class of goods	Units	This year		Previous year	
		Quantity	Value (Rs. in crores)	Quantity	Value (Rs. in crores)
Steel sheets	MT	7514.26	35.73	11113.69	55.36
Components		*	7,121.82	*	5,699.27
			<u>7,157.55 **</u>		<u>5,754.63 **</u>

\* It is not practicable to furnish quantitative information of components consumed in view of the considerable number of items diverse in size and nature. These items in value individually account for less than 10% of the total value of components consumed.

\*\*Excludes Rs.0.64 crore (Previous year Rs.0.34 crore) for two wheelers produced and capitalised during the year.

## d) CIF Value of imports:

Class of goods	This year (Rs. in crores)	Previous year (Rs. in crores)
Capital goods*	109.13	77.13
Raw materials	7.58	28.83
Components, spare parts and others	166.36	174.23

\* Excludes decrease of Rs.1.13 crores (Previous year increase of Rs.0.84 crore) capitalised due to fluctuation in exchange rates.

e) Value of imported and indigenous raw materials, components and spares consumed and percentage of each to the total consumption:

Class of goods	This year		Previous year	
	Value (Rs. in crores)	Percentage %	Value (Rs. in crores)	Percentage %
Raw materials				
-Imported	0.30	0.00	35.55	0.62
-Indigenous	35.43	0.50	19.81	0.34
Components				
-Imported	78.97	1.10	61.75	1.07
-Indigenous	7,042.85	98.40	5,637.52	97.97
	<u>7,157.55 *</u>	<u>100.00</u>	<u>5,754.63 *</u>	<u>100.00</u>
Spares consumed (charged to repairs and maintenance)				
-Imported	4.71	27.99	7.69	42.30
-Indigenous	12.12	72.01	10.49	57.70
	<u>16.83</u>	<u>100.00</u>	<u>18.18</u>	<u>100.00</u>

\*Excludes Rs.0.64 crore (Previous year Rs 0.34 crore) for two wheelers produced and capitalised during the year.

f) Expenditure in foreign currency (on accrual basis) :

	This year (Rs. in crores)	Previous year (Rs. in crores)
Royalty	254.37	212.40
Technical guidance fee	2.36	2.47
Model fee	47.13	52.58
Export commission	12.59	12.19
Travel and other accounts	3.64	3.42
Advertisement and Publicity	51.52	16.27

g) Earnings in foreign currency (on accrual basis) :

	This year (Rs. in crores)	Previous year (Rs. in crores)
FOB value of exports	262.56	252.00
Freight and insurance	0.94	1.61

h) Managerial remuneration: \*

	This year (Rs. in crores)	Previous year (Rs. in crores)
Remuneration	2.55	1.95
Commission	52.10	59.07
	<u>54.65</u>	<u>61.02</u>
Directors' sitting fee	0.13	0.12
	<u>54.78</u>	<u>61.14</u>

\* Excludes incremental contribution for gratuity, as the contributions are determined for the Company as a whole.

## Computation of net profit in accordance with section 198 of the Companies Act, 1956.

	This year (Rs. in crores)	Previous year (Rs. in crores)
Profit before taxation as per profit and loss account	1,246.10	1,412.24
Add:-		
Managerial remuneration	54.78	61.14
Provision for doubtful debts	0.30	0.86
Provision for diminution in value of investment	1.27	3.55
Net profit as per section 349 of the Companies Act, 1956	<u>1,302.45</u>	<u>1,477.79</u>
Maximum managerial remuneration to four whole time directors (including commission) at 10% of net profit (10% of net profit)	130.25	147.78
Restricted to	54.65	61.02
Commission component of managerial remuneration to four whole time directors restricted to 1% of net profit (1% of net profit) per director	52.10	59.11
Restricted to	52.10	59.07

## i) Provision and/or payment in respect of Auditor's Remuneration :

	This year (Rs. in crores)	Previous year (Rs. in crores)
a) As auditors (Audit fee)	0.28	0.20
b) In other capacity		
- limited review of unaudited financial results	0.20	0.17
- corporate governance and other certification	0.03	0.03
c) Out of pocket expenses	#	#
# This year Rs. 85871 (Previous year Rs. 89450)		

## j) Amount remitted in foreign currencies towards dividends during the year:

	This year			Previous year		
	No. of Non-Resident shareholders	No. of equity shares held	Dividend remitted (Rs. in crores)	No. of Non-Resident shareholders	No. of equity shares held	Dividend remitted (Rs. in crores)
2004-2005 - Final			-	1	51918750	103.84
2005-2006 - Final	1	51918750	103.84			-
			<u>103.84</u>			<u>103.84</u>

16. Previous year's figures have been recast/regrouped wherever necessary.

For and on behalf of the Board of Directors

BRIJMOHAN LALL MUNJAL

Chairman

PAWAN MUNJAL

Managing Director &amp; CEO

PRADEEP DINODIA

Director

RAVI SUD

Sr. Vice President &amp; CFO

ILAM C. KAMBOJ

G.M. Legal &amp; Company Secretary

New Delhi  
May 11, 2007



## PART IV OF SCHEDULE VI

TO THE COMPANIES ACT, 1956

### Balance Sheet Abstract and Company's General Business Profile

#### I. Registration Details

Registration No.	17354
State Code	55
Balance Sheet Date	31.03.2007

#### II. Capital Raised during the year (Rupees in crores)

Public Issue	Nil	Rights Issue	Nil
Bonus Issue	Nil	Private Placement	Nil

#### III. Position of Mobilisation and Deployment of Funds (Rupees in crores)

Total Liabilities	2635.23	Total Assets	2635.23
Sources of Funds		Application of Funds	
Paid-Up Capital	39.94	Net Fixed Assets	1355.45
Reserves & Surplus	2430.12	Investments	1973.87
Secured Loans	Nil	Net Current Assets*	(694.09)
Unsecured Loans	165.17	Misc. Expenditure	Nil

\*Includes Deferred Tax Liability (Net) Rs. 128.20 crores

#### IV. Performance of Company (Rupees in crores)

Turnover	10,089.81
Total Expenditure	8843.71
Profit before tax	1,246.10
Profit after Tax	857.89
Earnings per share (Rs.)	42.96
Dividend Rate (%)	850

#### V. Generic names of Three Principal Products/ Services of Company (as per monetary terms)

Item Code No. (ITC Code)	87112003
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For and on behalf of the Board of Directors

BRIJMOHAN LALL MUNJAL	Chairman
PAWAN MUNJAL	Managing Director & CEO
PRADEEP DINODIA	Director

RAVI SUD	Sr. Vice President & CFO
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ILAM C. KAMBOJ	G.M. Legal & Company Secretary
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New Delhi  
May 11, 2007

## Reconciliation of Net Income as per US GAAP Accounts and Audited Accounts as per Indian Companies Act 1956

(Rupees in Millions)

	2007	2006	2005	2004	2003
<b>Net Profit after tax for the year as per audited accounts</b>	<b>8,578.90</b>	<b>9,713.40</b>	<b>8,104.70</b>	<b>7,283.21</b>	<b>5,807.60</b>
<b>Add / (Less) : Profit / (Loss) of</b>					
- Income from investments ( unrealised gain/loss )					
- affiliated company	10.67	30.60	57.19	8.66	57.32
- held to maturity securities	-	22.90	(11.77)	(11.13)	-
- Exchange fluctuations	11.30	(8.40)	(3.90)	2.40	(1.20)
- Depreciation effect of exchange fluctuations	5.37	18.26	21.75	18.27	27.56
- Depreciation on leased assets	-	(76.60)	(93.18)	(137.96)	(164.53)
- Lease rentals paid	-	135.58	117.83	132.16	230.90
- Interest portion of lease rentals	-	(9.90)	(15.51)	(31.60)	(79.51)
- Provision for deferred tax	(167.24)	(103.56)	(2.11)	1.30	(17.94)
- Deferred revenue expenditure	-	-	-	7.00	(13.00)
<b>Net Income as per US GAAP</b>	<b>8,439.00</b>	<b>9,722.28</b>	<b>8,175.00</b>	<b>7,272.31</b>	<b>5,847.20</b>

## Balance sheet as at March 31

(Rupees in Millions)

	2007	2006	2005	2004	2003
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	357.82	1,587.22	176.01	371.20	243.30
Trade accounts receivables	3,352.48	1,586.58	895.49	438.01	1,414.88
Inventories	2,755.84	2,265.54	2,042.62	1,881.99	2,009.22
Pre-paid expenses and other current assets	2,666.58	2,773.08	2,431.20	2,398.70	1,097.70
<b>Total current assets</b>	<b>9,132.72</b>	<b>8,212.42</b>	<b>5,545.32</b>	<b>5,089.90</b>	<b>4,765.10</b>
Investment (held to maturity securities)	1,612.79	1,595.18	1,596.07	1,601.56	15.19
Investment in mutual funds	18,522.31	19,680.81	18,973.12	14,663.41	12,467.81
Investment in affiliate, at equity	252.42	241.75	211.14	153.96	145.29
Property, plant and equipment	13,401.08	9,765.51	7,049.94	5,860.07	5,151.67
<b>Total assets</b>	<b>42,921.32</b>	<b>39,495.67</b>	<b>33,375.59</b>	<b>27,368.90</b>	<b>22,545.06</b>

(Rupees in Millions)

	2007	2006	2005	2004	2003
<b>LIABILITIES</b>					
Trade accounts payable	5,548.20	6,462.70	6,619.60	6,989.90	4,099.40
Accrued expenses	417.58	305.02	247.50	195.70	177.80
Indian income taxes	38.50	40.30	45.70	113.50	109.00
Other current liabilities	4,871.05	4,266.15	3,538.05	3,048.75	2,715.85
Long term debt due within one year	206.10	227.27	222.83	190.23	290.78
<b>Total current liabilities</b>	<b>11,081.43</b>	<b>11,301.44</b>	<b>10,673.68</b>	<b>10,538.08</b>	<b>7,392.83</b>
Deferred income taxes	1,529.68	1,375.63	981.67	964.78	770.69
Long-term debt	1,445.60	1,630.53	1,920.45	1,784.76	1,380.57
<b>Total liabilities</b>	<b>14,056.71</b>	<b>14,307.60</b>	<b>13,575.80</b>	<b>13,287.62</b>	<b>9,544.09</b>
<b>STOCKHOLDER'S EQUITY</b>					
Common stock, par value; Rs. 2 (previous year Rs 2)					
Authorised 250,000,000 ;					
Outstanding shares 199687500					
( Previous year 199687500) of Rs 2 each	399.38	399.38	399.38	399.38	399.38
Capital surplus	0.03	0.03	0.03	0.03	0.03
Retained earnings	28,465.20	24,788.66	19,400.38	13,681.87	12,601.56
<b>Total stockholder's equity</b>	<b>28,864.61</b>	<b>25,188.07</b>	<b>19,799.79</b>	<b>14,081.28</b>	<b>13,000.97</b>
<b>Total liabilities and stockholder's equity</b>	<b>42,921.32</b>	<b>39,495.67</b>	<b>33,375.59</b>	<b>27,368.90</b>	<b>22,545.06</b>

## Statement of income for the year ended March 31

(Rupees in Millions)

	2007	2006	2005	2004	2003
Net sales	98,999.60	87,139.81	74,216.53	58,324.32	51,017.10
Cost of goods sold	79,931.23	67,548.97	57,308.71	43,933.64	38,074.30
Selling, administrative and general expense	8,558.40	6,979.60	6,055.73	5,296.11	4,917.77
Other (income) and expense	(1,748.47)	(1,572.20)	(1,397.42)	(1,635.94)	(947.42)
Interest net expense (income)	(229.90)	(51.40)	4.61	18.10	69.31
<b>Total expense</b>	<b>86,511.26</b>	<b>72,904.97</b>	<b>61,971.63</b>	<b>47,611.91</b>	<b>42,113.96</b>
<b>Income before income taxes</b>	<b>12,488.34</b>	<b>14,234.84</b>	<b>12,244.90</b>	<b>10,712.41</b>	<b>8,903.14</b>
Indian taxes on income	4,049.34	4,512.56	4,069.90	3,440.10	3,055.94
<b>Net income</b>	<b>8,439.00</b>	<b>9,722.28</b>	<b>8,175.00</b>	<b>7,272.30</b>	<b>5,847.20</b>
Net earning per share					
On share value of Rs. 2 each	42.26	48.69	40.94	36.42	29.28
Average common stock outstanding (numbers)	199,687,500	199,687,500	199,687,500	199,687,500	199,687,500

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## NOTES:

1. The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, which sets out details relating to Special Business to be transacted at the meeting is attached hereto.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE (ON A POLL ONLY) INSTEAD OF HIMSELF/HERSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXIES IN ORDER TO BE EFFECTIVE MUST BE RECEIVED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE MEETING.
3. Pursuant to Section 154 of the Companies Act, 1956, the Register of Members and the Share Transfer Books of the Company will remain closed from Thursday, July 12, 2007 to Tuesday, July 24, 2007 (both days inclusive).
4. The relevant details of Item Nos. 3 to 6, 8 & 9 pursuant to Clause 49 of the Listing Agreement are attached hereto.
5. The dividend as recommended by the Board of Directors, upon declaration by the members at the 24<sup>th</sup> Annual General Meeting, shall be paid to those members whose names appear on the Register of Members of the Company on Tuesday, July 24, 2007.  
  
In respect of shares held in electronic form, the dividend will be payable to the beneficial owners of the shares as on closing hours of business on Wednesday, July 11, 2007 as per details furnished by the Depositories for this purpose.
6. In view of the circular no. DCC/FIIT/Cir-3/2001 dated October 15, 2001 issued by SEBI, the ECS facility should mandatorily be used by the Companies for the distribution of dividend to its members. Your Company has already started this process and sent the required forms and details to all the members on various occasions. Those members holding shares in **physical form**, who inspite of repeated reminders have not yet sent the duly filled in **ECS form** annexed herewith as **Annexure - D** to avail the benefits of this facility are once again requested to send the same at the earliest. In case of members holding shares in demat mode, they should furnish details in the prescribed format to their Depository Participant (DP).
7. The Company is obliged to print such bank details on the dividend warrants as furnished by National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL), "the Depositories" to the Company and the Company can not entertain any request for deletion/change of bank details already printed on the dividend warrant(s) based on the information received from the concerned Depositories,

without confirmation from them. In this regard, members are advised to contact their DP and furnish them the particulars of **any change** desired.

8. Pursuant to the provisions of Section 205A(5) of the Companies Act, 1956, the amount of dividend which remains unpaid/unclaimed for a period of 7 years is transferred to the "Investor Education and Protection Fund (IEPF)", constituted by the Central Government and member(s) would not be able to claim any amount of dividend so transferred to the IEPF. As such, member(s) who have not yet encashed his/their dividend warrant(s) is/are requested in his/their own interest to write to the Registrar & Share Transfer Agent of the Company i.e. M/s. Karvy Computershare Private Limited **immediately** for claiming outstanding dividend declared by the Company during the years 2001 and onward.

The dividend paid for the year from 1995 to 2000 and remaining unpaid/unclaimed in the accounts has already been transferred to IEPF.

In respect of the unclaimed dividend(s) declared for period(s) upto 1994, the same have already been transferred by the Company to the General Revenue Account of the Central Government. Member(s) who have so far not claimed or collected their dividend declared upto the aforesaid period are requested to claim the same by writing to the Registrar of Companies, NCT of Delhi & Haryana, Paryavaran Bhawan, CGO Complex, Lodhi Road, New Delhi 110 003 by quoting the Company's Identification No. **U35911DL1984PLC017354**.

9. Pursuant to the provisions of Section 109A of the Companies Act, 1956, every member or joint holders holding shares in **physical form** may nominate, in the prescribed manner, a person to whom all the rights in the shares shall vest in the event of death of the sole holder or all the joint holders. A **nomination form** for this purpose is annexed herewith as **Annexure - C**. Member or joint holders holding shares in demat form may contact their respective DP for availing this facility.
10. Members are requested to notify **immediately** any change in address and signature updation in the form annexed as **Annexure - A and B** respectively for their **physical holdings** to the Company at its Registered Office and to the respective Depository Participants (DPs) in case of shares held in **electronic mode**.
11. Members are requested to bring their copy of the Annual Report to the meeting.

## EXPLANATORY STATEMENT

pursuant to Section 173(2) of the Companies Act, 1956

### Item No. 8

Mr. Takao Eguchi, Whole-time Director of the Company has been assigned another responsibility by Honda Motor Co., Ltd., Japan. Consequently, he has resigned from the position of Director and Whole-time Director of the Company effective March 31, 2007. He was associated with the management of the Company since June 1, 2005.

Mr. Eguchi has been succeeded by Mr. Yutaka Kudo with effect from April 1, 2007. Mr. Kudo was born on June 18, 1950, aged 57 years, at Fukuoka, Japan and after completing a course in automobile, joined Honda Motor Co., Ltd., Japan as Staff Member in Motorcycle Frame Assembly Department & later on took higher assignments at various positions in Honda. Immediately before joining Hero Honda, he was working as Production Director in P.T. Astra Honda Motor, Indonesia. His specialization to name a few are:

- Manufacturing techniques for motorcycle & body assembly;
- Introduction of new models for motorcycle body assembly; and
- Revamping work and introduction of new technologies;

Apart from being on the Board of Hero Honda Motors Limited, Mr. Kudo does not hold directorship in any other Company.

Mr. Kudo does not hold any shares (as own or on behalf of other person on beneficial basis) in the Company.

Your Board of Directors on the recommendation of Remuneration Committee in its meeting held on March 6, 2007 appointed Mr. Yutaka Kudo as an Additional Director and Whole-time Director of the Company by way of passing a resolution by circulation on March 6, 2007 pursuant to Sections 260, 269, 198, 309 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 with effect from April 1, 2007 for a period of 5 (five) years subject to the approval of the Central Government and the shareholders in the General Meeting on the remuneration, including minimum remuneration and other terms and conditions as detailed hereunder:

- I. **Basic Salary :** Rs.1,83,013 (Rupees One lac eighty three thousand thirteen only) per month; (Subject to an increase of 10% per annum on the Basic Salary of preceding year).;
- II. **Commission :** He will also be allowed remuneration by way of Commission in addition to Basic Salary, Perquisites and any other allowances, benefits or amenities subject to the condition that the amount of commission shall not exceed 1% of the Net Profit of the Company in a particular financial year as computed in the manner referred to in Section 198 of the Companies Act, 1956;
- III. **Perquisites and allowances :** In addition to the above Basic Salary and Commission, he shall be entitled to the

following Perquisites and allowances:

- I) **Residential Accommodation:** The appointee shall be provided free furnished residential accommodation. In addition to this the appointee shall be provided with cook(s), servant(s) and security guard(s);
  - ii) **Medical Reimbursement:** Actual Medical Expenses incurred by the appointee and his family shall be reimbursed;
  - iii) **Club Fees:** Actual fees of clubs will be reimbursed;
  - iv) **Personal Accident Insurance:** Actual premium to be paid by the Company;
  - v) **Insurance of House-hold goods:** Actual premium to be paid by the Company;
  - vi) **Car:** Facility of car with driver to be used for the business of the Company;
  - vii) **Telephone:** Free telephone facility at residence including Mobile phone to be used for the business of the Company;
  - viii) **Leave:** One month's leave with full salary for every 11 months of service subject to the condition that leave accumulated but not availed will not be encashed; and
  - ix) **Reimbursement of expenses:** Reimbursement of entertainment, traveling, hotel and other expenses actually and properly incurred for the business of the Company.
- IV. **Leave Travel Concession:** For the appointee and his family once in a year incurred in accordance with the rules of the Company. In case it is proposed that the leave be spent in home country instead of anywhere in India, return passage may be allowed for self and family in accordance with the rules of the Company;
  - V. **Children's Education Allowance :** In case of children studying in India or abroad expenses subject to maximum of Rs.5,000 per month per child shall be reimbursed by the Company. Such Allowance shall be admissible upto a maximum of two children;
  - VI. **Holiday passage for children studying outside India/family staying abroad :** Return holiday passage is admissible once in a year by economy class or once in two years by first class to children from their place of study abroad to India and to the members of the family from the place of their stay abroad to India if they are not residing in India with the appointee;
  - VII. **Reimbursement of expenses incurred for joining duty and returning to home country after completion of tenure :** Actual expenses incurred on travel and packing, forwarding, loading/ unloading as well as freight, insurance, custom duty, clearing expenses, local transportation and installation expenses in connection

with the moving of personal effects for self and family for joining duty in India. On completion of the tenure, all the expenses referred to herein above for travel and forwarding the personal effects to Japan including the passage money shall also be allowable to the appointee on his finally leaving the employment of the Company.

If however, the appointee joins another branch of the same/related multinational Company, the Company shall not bear their expenses on his finally leaving.

Explanation: For the aforesaid purposes "Family" means the spouse, the dependent children and dependent parents of the appointee; and

**VIII. Minimum Remuneration :** If in any financial year during the currency of tenure of the Whole-time Director, the Company has no profits or its profits are inadequate, the appointee shall be entitled to minimum remuneration by way of Basic Salary, Perquisites & allowances not exceeding the ceiling limit of Rs. 2,00,000 per month and in addition thereto, he shall also be eligible to the Perquisites & allowances not exceeding the limits specified, under para 2 of Section II, Part II of Schedule XIII to the Companies Act, 1956 or such other limits as may be prescribed by the Government from time to time as Minimum Remuneration.

However, the appointee shall not be entitled to any sitting fee for attending meetings of the Board and/or Committee thereof. His office shall be liable to determination by retirement of Directors by rotation.

Mr. Yutaka Kudo may be deemed to be interested/ concerned in the resolution contained under item no. 8 of the notice. None of the other directors is deemed to be interested/concerned in the Ordinary Resolution under item no. 8 of the Notice.

The Board of Directors of your Company recommends passing of the aforesaid Ordinary Resolution.

#### Item No. 9

Mr. Takashi Nagai has been appointed as an Additional Director on the Board on May 11, 2007 in place of Mr. Tatsuhiro Oyama, who has resigned from the Directorship of the Company.

Mr. Takashi Nagai born on February 7, 1959, aged 48 years, at Toyama, Japan. After completing his graduation from Keio University, Japan in the year 1982, he joined Honda Motor Co., Ltd, Japan. Before joining Hero Honda he was working as an Executive Vice President, Asian Honda Motor, Thailand. Mr. Nagai brings with him vast experience in Automobile Industry.

Apart from being on the Board of Hero Honda Motors Limited, Mr. Nagai does not hold directorship in any other Company.

Mr. Nagai does not hold any shares (as own or on behalf of other person on beneficial basis) in the Company.

Mr. Takashi Nagai may be deemed to be interested/ concerned in the resolution contained under item no. 9 of the notice. None of the other directors is deemed to be interested/concerned in the Ordinary Resolution under item no. 9 of the Notice.

The Board of Directors of your Company recommends passing of the aforesaid Ordinary Resolution.

#### Item No. 10

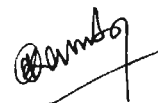
In order to remunerate the Non-Executive Independent Directors of the Company for increased responsibilities entrusted upon them under the law and, the current trends and commensurate with the time devoted and the contribution made by them, the Board of Directors of the Company, at their meeting held on May 31, 2007 has approved, subject to such statutory approvals as may be necessary, payment as commission, to be paid to the Non-Executive Independent Directors of the Company. A sum to be paid as commission shall not exceed 0.10 per cent per annum of the net profits of the Company, calculated in accordance with provisions of Section 198, 349 and 350 of the Companies Act, 1956 which shall be in addition to the sitting fees payable for attending the Meetings of the Board of Directors or any Committee thereof.

Section 309(4) of the Companies Act, 1956 requires a Special Resolution to be passed by the Members of the Company in General Meeting for payment of remuneration by way of commission to Non-Executive Directors of the Company.

All Non-Executive Independent Directors of the Company are interested/concerned in the Resolution contained under item no. 10 of the notice to the extent of the remuneration that may be received by them.

The Board of Directors of your Company recommends passing of the aforesaid Special Resolution.

By Order of the Board  
for Hero Honda Motors Limited



Ilam C. Kamboj  
G.M. Legal & Company Secretary

New Delhi  
May 31, 2007

Registered Office:  
34, Community Centre,  
Basant Lok, Vasant Vihar,  
New Delhi-110057



## RELEVANT INFORMATION

pursuant to Clause 49 IV(G) (i) of the Listing Agreement regarding directors being appointed and re-appointed:

### Mr. Om Prakash Munjal

Mr. Om Prakash Munjal son of Late Sh. Bahadur Chand, born on August 5, 1928 aged 78 years, at Kamalia (now in Pakistan) is founder Director of the Company. He is the Co-Chairman and CEO of Hero Cycles Limited, the largest producer of bicycles and bicycle components in the world. Under his leadership, Hero Cycles has found its way into the Guinness Book of World Records. In 1990, Mr Munjal was awarded the "Indira Gandhi National Unity Award" by the President of India. He has been regular in making valuable contributions in Board meetings:

He is presently holding the membership of the Board of the following Public Companies:

No.	Name of Company	Nature of Office
1.	Hero Cycles Limited	Co-Chairman and Managing Director
2.	Majestic Auto Limited	Chairman
3.	Easy Bill Limited	Director
4.	Hero Honda Motors Limited	Director
5.	Hero Global Design Limited	Director
6.	Hero Honda Finlease Limited	Director
7.	Hero Financial Service Limited	Director
8.	Hero Motors Limited	Director
9.	Highway Industries Limited	Director
10.	Munjal Auto Industries Limited	Director
11.	Shivam Autotech Limited	Director

He is neither a member or Chairman of any of the Committee(s).  
He holds 25000 equity shares of Rs. 2 each in the Company.

### Mr. Narinder Nath Vohra

Mr. Narinder Nath Vohra son of Late Sh. D.R. Vohra, born on May 5, 1936, aged 71 years, at Lahore (now in Pakistan) joined the Company as an Additional Director on the Board of the Company on March 31, 2001. He served the Punjab Government for about 20 years in various positions. In the Union Government, he served as Additional Defence Secretary, Secretary - Defence Production, Defence Secretary and Home Secretary. Post-retirement, he has also served as Principal Secretary in the Prime Minister's Office and was Director, India International Centre. Currently, he is Special Representative of Govt. of India in the Indo-Pak Peace dialogue on the Kashmir Issue. He has been conferred with "Padam Vibhushan" for his invaluable contribution for the welfare of the society and the nation as a whole. He has been regular in making valuable contributions in the meetings of Board and its Committee thereof.

He is presently holding the membership of the Board / Committee(s) of the following Public Companies:

No.	Name of Company	Nature of Office
1	Hero Honda Motors Limited	Director Chairman - Shareholders' Grievance Committee Member - Audit Committee Member - Remuneration Committee
2	Jeevan Beema Sahayog Asset Management Company Limited	Director

Mr. Vohra does not hold any shares (as own or on behalf of other person on beneficial basis) in the Company.

### Mr. Anajit Singh

Mr. Anajit Singh son of Late Dr. Bhai Mohan Singh, born on January 11, 1954, aged 53 years, joined the Company as an Additional Director on the Board of the Company on September 28, 2004. He is currently the Chairman of Max India Limited, New Delhi. Mr. Singh brings with him rich and varied experience in businesses like Pharmaceuticals, telecom services, packaging, specialty plastic products and electronic components. He has been regular in making valuable contributions in Board Meetings.

He is presently holding the membership of the Board of the following Public Companies:

No.	Name of Company	Nature of Office
1	Max Healthcare Institute Limited	Chairman and Managing Director
2	Max India Limited	Executive Chairman
3	Max New York Life Insurance Co. Limited	Chairman
4	Max Medical Services Limited	Chairman
5	Max Health Staff International Limited	Chairman
6	Malsi Holdings Limited	Chairman
7	Neeman Medical Institute (Asia) Limited	Chairman
8	Acquire Talent Services Limited	Director
9	Hero Honda Motors Limited	Director
10	Hero Corporate Services Limited	Director
11	Hutchison Essar Limited	Director
12	IDBI Limited	Director
13	Malsi Estates Limited	Director

He is neither a member or chairman of any of the Committee(s).

Mr. Anajit Singh does not hold any shares (as own or on behalf of other person on beneficial basis) in the Company.

### Dr. Pritam Singh

Dr. Pritam Singh son of Late Sh. R.D. Singh, born on June 14, 1941, aged 65 years, at Mirzapur joined the Company as an Additional Director on the Board of the Company on September 28, 2004. He has served as the Director of Management Development Institute (MDI), Gurgaon, Haryana. Dr. Singh is one of the pioneers of management education in India, and received the "Padam Shri" award in 2003 for his contributions in this field. He has been regular in making valuable contributions in the meetings of Board and Committees thereof.

He is presently holding the membership of the Board / Committee(s) of the following Public Companies:

No.	Name of Company	Nature of Office
1	Shipping Corporation of India Limited	Director Member – Audit Committee

2	Hero Honda Motors Limited	Director Member – Audit Committee Member – Shareholders' Grievance Committee
3	Parsvnath Developers Limited	Director
4	Dish TV India Limited	Director

Dr. Pritam Singh does not hold any shares (as own or on behalf of other person on beneficial basis) in the Company.

### Mr. Yutaka Kudo

The brief profile of Mr. Yutaka Kudo has been given in the Explanatory Statement to Ordinary Resolution No. 8 of this Notice.

### Mr. Takashi Nagai

The brief profile of Mr. Takashi Nagai has been given in the Explanatory Statement to Ordinary Resolution No. 9 of this Notice.



## Annexure - A

**REQUEST FOR UPDATION OF RECORDS – CHANGE OF ADDRESS**

(For shares held in physical form)

To,  
The Manager,  
Karvy Computershare Private Limited,  
(Unit : Hero Honda Motors Limited)  
Plot no. 17-24, Vithalrao Nagar,  
Madhapur, Hyderabad 500 081

Dear Sir,

I/we hereby request you to please update my/our change in address in your records for the Registered Folio No. Date of effect:      

Old Address	New Address
City	City
State	State
Pin Code	Pin Code

For your doing the needful, I am attaching herewith a copy from among the following documents as Proof of Identification (POI) & Proof of Address (POA) and marked against the relevant box. Further a copy of past dividend warrant is attached confirming the old address.

Proof of Identification (POI)	(X)	Proof of new address (POA)	(X)
Passport copy		Passport copy	
Voters ID		Voters ID	
PAN Card		Driving License	
Driving License		Front page of Bank Passbook	
		Ration Card	

Kindly confirm having recorded the changed address.

Yours faithfully

\_\_\_\_\_  
Signature of the sole/first holder  
(as per specimen registered with the Company)

Date:      

Place: \_\_\_\_\_

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## Annexure - B

## REQUEST FOR UPDATION OF RECORDS – CHANGE OF SIGNATURE

(For shares held in physical form)

To,  
The Manager,  
Karvy Computershare Private Limited,  
(Unit : Hero Honda Motors Limited)  
Plot no. 17-24, Vithalrao Nagar,  
Madhapur, Hyderabad 500 081

Dear Sir,  
I hereby request you to please incorporate my latest signature duly attested by my banker in your records for the  
Registered Folio No.  in which I am the sole holder or joint holder no. 1/2 with the first holder.

Name of the shareholder

Date of effect:  <sup>DD</sup>  <sup>MM</sup>  <sup>YY</sup>

Present Signature

<input type="text"/>	<input type="text"/>	<input type="text"/>
As Sole Holder	As Joint holder 1	As Joint holder 2

### Verification of Signature by Banker with Designation & Seal

Account No. <input type="text"/>	Type <input type="text"/>
Bank Name <input type="text"/>	
Address <input type="text"/>	
Name of the officer <input type="text"/>	
Branch Code Name <input type="text"/>	

Please find enclosed herewith a copy of the front page of the Pass book, of which the attestation is being done and a copy from among the following documents as Proof of Identification (POI) & Proof of Address (POA) and marked against the relevant box.

Proof of Identification (POI)	(X)	Proof of address (POA)	(X)
Passport copy		Driving License	
Voters ID		Ration Card	
PAN Card		Passport/Voters ID	

I, hereby declare that the particulars given above are correct and complete.

Signature of the sole/first holder

Name :

Address:

Date:  <sup>DD</sup>  <sup>MM</sup>  <sup>YY</sup>

Place:

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## Annexure - C

**NOMINATION REQUEST FORM**

(For shares held in physical form)

(To be submitted in duplicate)

To,  
The Manager,  
Karvy Computershare Private Limited,  
(Unit : Hero Honda Motors Limited)  
Plot no. 17-24, Vithalrao Nagar,  
Madhapur, Hyderabad 500 081

From : \_\_\_\_\_

Registered Folio No. \_\_\_\_\_

No. of Shares: \_\_\_\_\_

I am /we are holder(s) of Shares of the Company as mentioned above. I/we nominate the following person(s) in whom all rights of transfer and/or amount payable in respect of shares shall vest in the event of my/our death.

Nominee's Name		Age: DD MM YY												
To be furnished in case the nominee is a minor														
Date of Birth: DD MM YY														
Guardian's Name*														
Occupation of Nominee Tick (v)	1. Service <input type="checkbox"/>	2. Business <input type="checkbox"/>	3. Student <input type="checkbox"/>	4. Household <input type="checkbox"/>										
	5. Professional <input type="checkbox"/>	6. Farmer <input type="checkbox"/>	7. Others <input type="checkbox"/>											
Nominee's Address		Pin Code												
Telephone No.		Fax No.												
E-mail Address		STD Code												
Specimen Signatures of Nominee/ Guardian (in case nominee is minor)														

\*To be filled in case nominee is minor  
Kindly take the aforesaid details on record.

Thanking you,  
Yours faithfully,

Date: DD MM YY

Place: \_\_\_\_\_

	Name of the holder(s) (As appearing on the Certificate(s))	Signatures as per specimen registered with the Company
Sole/1st holder		
2nd holder		
3rd holder		

Signature of two witnesses

	Name and Address	Signature with date
1.		
2.		



**Instructions:**

1. Please read the instructions given below very carefully and follow the same to the letter. If the form is not filled as per instructions, the same will be rejected.
2. The nomination can be made by individuals only. Non-individuals including society, trust, body corporate, partnership firm, Karta of Hindu Undivided Family, holder of power of attorney cannot nominate. If the shares are held jointly all joint holders will sign (as per the specimen registered with the company) the nomination form.
3. A minor can be nominated by a holder of shares and in that event the name and the address of the Guardian shall be given by the holders.
4. The nominee shall not be a trust, society, body corporate, partnership firm, Karta of Hindu Undivided Family, or a power attorney holder. A non-resident Indian can be a nominee on a re-patriable basis.
5. Transfer of share in favour of a nominee and repayment of amount to nominee shall be a valid discharge by a company against the legal heir.
6. Only one person can be nominated for a given folio.
7. Details of all holders in a folio need to be filled; else the request will be rejected.
8. The nomination will be registered only when it is complete in all respects including the signature of (a) all registered holders (as per specimen lodged with the company) and (b) the nominee.
9. Whenever the Shares in the given folio are entirely transferred or transposed with some other folio, then this nomination will stand rescinded.
10. Upon receipt of a duly executed nomination form, the Registrar and Transfer Agent of the company will register the form and allot a registration number. This number and folio no. should be quoted by the nominee in all future correspondence.
11. The nominee can be varied or cancelled by executing fresh nomination form.
12. The company will not entertain any claims other than those of a registered nominee, unless so directed by a court.

**For Office Use Only**

Nomination Registration Number
Date of Registration
Checked by and Signature of Employee

## Annexure - D

**ELECTRONIC CLEARING SERVICE (ECS) MANDATE FORM**

(For shares held in physical form)

To,  
The Manager,  
Karvy Computershare Private Limited,  
(Unit : Hero Honda Motors Limited)  
Plot no. 17-24, Vithalrao Nagar,  
Madhapur, Hyderabad 500 081

Registered Folio No. 

I hereby give my mandate to credit my Dividend on the shares held by me with respect to aforesaid folio number directly to my bank account through Electronic Clearing Service (ECS). The details of the Bank account are given below:

**Particulars of Bank Account**

A	Name of the Bank	<input type="text"/>
B	Branch Name and Address	<input type="text"/> <input type="text"/>
C	Account Number	<input type="text"/>
D	Type of Account	Savings <input type="checkbox"/> Current <input type="checkbox"/> Other <input type="checkbox"/>
E	Nine Digit MICR Code No.	<input type="text"/>
	(appearing on the cheque)	

(Please attach a blank "cancelled" cheque or a photocopy thereof or a certificate from bank)

Date of effect: DD   MM   YY

I, hereby declare that the particulars given above are correct and complete. If the transaction is delayed or credit is not effected at all for reason(s) of incomplete or incorrect information, I will not hold the Company or its Share Transfer Agents responsible.

Signature of the sole/first holder  
(as per the specimen registered with the Company)

Name :

Address:

(As address proof, I am attaching herewith a copy from among the following documents viz. Passport copy, Voters ID, Driving License, Front page of Bank Passbook or Ration Card)

Date: DD   MM   YY

Place:

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**HERO HONDA MOTORS LIMITED**

Regd. Office : 34, Community Centre, Basant Lok, Vasant Vihar, New Delhi - 110 057

**ATTENDANCE SLIP**

Please complete this attendance slip and hand it over at the entrance of the meeting hall.

L.F. No. \_\_\_\_\_

No. of Shares Held \_\_\_\_\_

Dp.Id.\* \_\_\_\_\_

Client Id.\* \_\_\_\_\_

Name(s) in full

Father's/Husband's Name

Address as Regd. with the Company

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

I/We hereby record my/our presence at the 24<sup>th</sup> Annual General Meeting of the Company being held on Tuesday, July 24, 2007 at 10:30 a.m. at Airforce Auditorium, Subroto Park, Dhaula Kuan, New Delhi 110010.

Signature of the shareholder(s)/proxy\*\*

1. \_\_\_\_\_ 2. \_\_\_\_\_ 3. \_\_\_\_\_

\* Applicable for investors holding shares in electronic form

\*\* Strike out whichever is not applicable

Note: Attendance slip in original should be complete in all respects.



No gift of any nature will be distributed at the Annual General Meeting.  
The members seeking gifts may excuse us.

**HERO HONDA MOTORS LIMITED**

Regd. Office : 34, Community Centre, Basant Lok, Vasant Vihar, New Delhi - 110 057

**PROXY**

L.F. No. \_\_\_\_\_

No. of Shares Held \_\_\_\_\_

Dp.Id.\* \_\_\_\_\_

Client Id.\* \_\_\_\_\_

I/We;

Name(s) in full

Father's/Husband's Name

Address as Regd. with the Company

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

being a member/members of Hero Honda Motors Limited hereby appoint \_\_\_\_\_ or failing him/her \_\_\_\_\_ of \_\_\_\_\_ as my/our proxy to vote for me/us and on my/our behalf at the 24<sup>th</sup> Annual General Meeting of the Company being held on Tuesday, July 24, 2007 at 10:30 a.m. at Airforce Auditorium, Subroto Park, Dhaula Kuan, New Delhi 110010.

Signature of the shareholder(s)

Signature of Proxy(s)

1. \_\_\_\_\_ 2. \_\_\_\_\_ 3. \_\_\_\_\_ 1. \_\_\_\_\_

Date: DD MM YY

Affix  
15 Paise  
Revenue  
Stamp

\* Applicable for investors holding shares in electronic form

Note: The proxy must be returned so as to reach the registered office of the Company not less than 48 hours before the time for holding the aforesaid meeting. The proxy need not be a member of the Company.



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Hero Honda Motors Limited  
34, Community Centre, Basant Lok, Vasant Vihar, New Delhi-110 057, India  
Ph.: 91-11-2614 2451, 2614 4121  
[www.herohonda.com](http://www.herohonda.com)